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HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

NINETY-NINTH CONGRESS
FIRST SESSION

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FEBRUARY 20, 1985

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FEBRUARY 21, 1985

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AGRICULTURE

WEDNESDAY, FEBRUARY 20, 1985

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 12:37 p.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Kassebaum, Boschwitz, Andrews, Grassley, Kasten, Gorton, Chiles, Johnston, Sasser, Metzenbaum, Riegle, and Exon.

Staff present: Stephen Bell, staff director; and William Hoagland, deputy staff director and senior analyst for agriculture.

For the minority: Richard N. Brandon, staff director; and Barbara Chow, senior analyst for agriculture.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. The hearing will please come to order.

Let me be very brief, but let me also remind the Senators, those who are here and those who are not here, that there was a serious request from committee members that we have the Secretary here. We are not going to have witnesses after this Friday. And his schedule was completely filled, but he agreed to come here at 12:30 and stay until 2 o'clock, so it is incumbent upon those who are not here, who desire to inquire, that they get here. I am going to try to accommodate the Secretary just as he has tried to accommodate us.

It is a pleasure to have you here again before our committee. We appreciate your willingness to arrange your schedule, as I just indicated, to be with our committee, on very short notice.

I would like to remind the committee that we will have the Secretary of the Treasury here at 2:30 and that his schedule change from 2 o'clock was an adjustment on his part. His schedule was also filled, and we wanted to finish our formal witnesses by Friday, so he will be here.

For those who want to make inquiry to the Secretary of the Treasury on any issue, please understand that we will start promptly at 2:30.

AGRICULTURE PROGRAMS MUST BE REFORMED

In the spirit of brevity, let me state that I think we all recognize that American agriculture faces a major adjustment, unlike any in the past 15 to 20 years. I also believe that the Federal deficit has contributed significantly to the current problems that confront agriculture. Large deficits have a tendency to keep interest rates high and keep the American dollar at unusually high values, which make it very difficult for most exports and even more difficult for the export of farm goods. The value of the dollar has had a significant impact. Our inability to get back into the full world markets that we once occupied with agricultural products has indeed taken its toll.

I am convinced that the one thing we can do that will benefit agriculture in the long run, more than anything else, is to lower the projected deficits in a substantial manner. But to reduce those deficits, Federal agriculture programs must be reformed. Nobody truly believes that after spending almost $60 billion that the current programs are working effectively.

We have the Secretary here to inquire with reference to those reforms, because they impact directly upon our budget resolution, and of course, he is here to talk about any matters pertaining to agriculture, including the loan crisis which is before us.

Having said that, I yield to my friend from Florida, and then we will proceed with the questions.

OPENING STATEMENT OF SENATOR CHILES

Senator Chiles. Thank you, Mr. Chairman.

Good afternoon, Mr. Secretary, and welcome to the Senate Budget Committee. As you know, we have already heard some testimony about the conditions in rural America. Paul Volcker, commenting on the proposed credit relief package, has simply told us that the new policy would be pretty much like the old policy, and I am sure you are familiar with what David Stockman had to say at our committee.

This budget implies a lot of criticism about the way people run their farms, and it lays on some very stiff cuts in agriculture programs. But it offers the farmers no hope, it offers farmers no solution. It does not seem to help farmers stabilize their production. It does not help them increase their profits so they can be less reliant on these Government programs. It looks like what the budget does is stop the farm programs in their tracks.

REDUCTIONS FALL HEAVILY ON FARMERS

A lot of the budget reductions proposed by the Administration fall heavily on farmers, and these proposals come in the aftermath of big declines in land values, bankruptcies that have tripled in the last 3 years, and profits—or, I guess I should say lack of profits—that have gone from 13.5 percent in 1978 to a minus 3 percent in 1983.

Although agriculture programs account for just 2 percent of the Federal budget, they are 11 percent of the budget cuts proposed in this year's budget. Rural programs are 2.3 percent of the budget, but they are targeted for 15 percent of the overall spending reductions.

So I have some serious concerns about the operations of the Federal Farm Program. Since this administration came to office, we have spent $41 billion on farm programs; but farm income has dropped to its lowest level in 50 years. By contrast, we spent $10 billion on commodity programs during the previous 4 years, and the net farm income was 60 percent higher than it is today. There are some people who like to blame farmers as poor managers who got themselves in a bad fix. But it seems to me there are some programs that have been poorly managed and have condemned farmers to a fate that has little to do with their ability to produce.

All of us, I think, have some work to do and some farms to save. I look forward to your testimony this morning on how we can get the most out of the farm dollar.

Chairman DOMENICI. Thank you very much, Senator Chiles.

Mr. Secretary, you may proceed. If you have a written statement, it will be made a part of the record.[1] If you want to use it, deliver it, fine; if not, you can shorten it and abbreviate it for the committee.

STATEMENT OF HON. JOHN R. BLOCK, U.S. SECRETARY OF AGRICULTURE, ACCOMPANIED BY RANDY M. RUSSELL, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS, DEPARTMENT OF AGRICULTURE; AND LARRY WACHS, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Secretary BLOCK. Thank you very much, Mr. Chairman.

It is my pleasure to appear before this committee today, and I thank you for your efforts to accommodate my time frame. I think you may know that at 2:30, Senator Dole and others are interested in talking about some of the credit problems in agriculture, and I am prepared to talk to him about that.

I want to say that I am going to deliver an abbreviated statement in order to try to save all the time we can, but I do believe that quite a bit of what is in that statement is very, very revealing, and it is appropriate that we take special note of it.

Mr. Chairman, we are now in an extremely important period for the agricultural sector. Over the next few months, we will be considering a new farm bill, and I might say that that bill will be introduced on Friday this week. We will be acting on ways to reduce the Federal deficit; we will be trying to help financially stressed farmers through their difficulties.

We believe it is important for the health of the agricultural sector, as well as all sectors of our economy, that the Federal deficit be reduced. The budget deficit and its impact particularly on interest and exchange rates has had devastating effects on sectors such as agriculture. We believe it is in the best interest of farmers and the Nation to implement an effective means of controlling outlays and to bring the deficit down. It was in this context that the President's budget was developed.

LET FARMERS COMPETE FOR WORLD MARKETS

Before addressing our specific budget proposals, I would first like to review the current agricultural situation. Over the past 4 years, we have seen a divergence from past trends in the supply and demand for agricultural products. During the seventies, worldwide demand for agricultural products was outpacing supply; foreign trade was growing at a rapid rate, and stocks were reduced.

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[1] See p. 12.

It was generally believed that the high growth in demand would continue into the eighties and nineties, and I might say that when I came in as Secretary of Agriculture, we had just heard the report from all of the experts, and they were wondering how we would ever be able to raise enough to feed the world. That was in January 1981, and things have changed since then. In only a few years, this situation reversed itself, and we end up with a major excess supply problem, worldwide recession, mounting debts in the developing world, and that has slowed demand and growth.

At the same time, world supplies increased greatly because of favorable growing conditions, and the incentives that have been provided by governments, including the United States, with its increasing loan rates and target prices. As a result, exports have fallen, our stocks have grown, and we have taken a number of actions to deal with the situation, but the agricultural sector is still plagued with excessive supplies.

Unfortunately, the outlook for the rest of the eighties is for a continuation of the current situation, unless we can take a new approach to our problems. The choice before us is whether we want to maintain the costly current programs and become even less competitive in world markets, or whether we want to have market-oriented programs that allow our farmers to make use of their great efficiency and productivity to compete for world markets.

We believe that the latter course is the only one that should be followed, not only because it will lead to a more prosperous farm sector over the long run, but because it will also reduce the burden on taxpayers and the Federal deficit.

CURRENT FARM CREDIT SITUATION IS A PROBLEM

Another problem we are faced with is the current farm credit situation. During the seventies, land value appreciation exceeded the cost of borrowing; thus, for many farmers, it made economic sense to borrow against the land to finance the purchases of additional land and equipment.

Today, the situation is reversed, and those who borrowed heavily to finance land purchases at inflated prices are now experiencing capital losses and may be forced to sell their land. As a result, many farmers are under financial stress. It is a very real and immediate problem, and we sympathize with those farmers who are being forced to make adjustments to those new economic conditions.

We tried to deal with the problem through government action. The PIK Program was a move in that direction, and last fall we worked with the banks to create a debt-restructuring program. We have just made some changes in that plan to make it even more appealing to the lending institutions.

In short, the changes that have been made provide for improved cooperation and monitoring of the farm credit situation, greater forebearance in servicing farm borrowers who are in trouble, and increased flexibility in the administration of Farmers Home farm lending. We will also allow private lenders the option of writing down interest rates instead of principal, to qualify borrowers for FmHA guarantee of their loan balance.

The package as a whole can and will work, but the Federal Government cannot shoulder the full burden. We need the help of the States, local communities, and lending institutions to make it work.

In terms of Federal credit availability, Farmers Home still has about $600 million that can be utilized for loan guarantees in fiscal year 1985; for fiscal year 1986, we are requesting $3.4 billion in guaranteed and direct farm operating credit. That, for 1986, is up from the $2.6 billion that we have this year for both guaranteed and direct loans.

It also should be noted that the Commodity Credit Corporation has been providing significant amounts of operating cash to farmers to keep them going through this difficult period, and between December 1984 and April 1985, it is estimated that CCC will have provided over $12 billion in loans and direct payments to farmers, representing over 75 percent of the expected total of CCC loans and payments for 1985.

The Commodity Credit Corporation will provide $17 billion in total for fiscal year 1985. The amount for the 6-month period from October 1984 to April 1985 will be $15 billion—$8 billion in loans and $7 billion in direct payments to farmers in this 6-month timeframe, and that is up to April 1, which should be of significant help and benefit to farmers in getting the necessary funding to put in this year's crop.

With this background on the state of farm credit and agriculture in general, I would like to discuss our budget proposals for 1986. [Secretary Block here refers to charts.] And even though USDA spending is a small part of the Federal budget, 4.7 percent, as you see there, it is not a big lot; it is down here, and this is the total budget. You can see what USDA's portion of it is. [See chart 1, p. 35.]

OUTLAYS HAVE GROWN SIGNIFICANTLY

The USDA outlays have grown significantly in the past 4 years from $26 billion in 1981 to $45 billion now estimated for 1985. You can see the level that they were at back in 1981, how they have gone up and dropped back a little, and still ride relatively high. [See chart 2, p. 36.]

If you go back into the seventies, they hover around a range down in here, below where they were in 1981.

The rate of growth in USDA spending has been 50 percent greater than the growth in total Federal spending over this period. Here is the total Federal spending. Total Federal spending has been up 47 percent in this timeframe; USDA growth has been up 73.5 percent. [See chart 3, p. 37.]

I just bring this out to point out that we have been doing a great deal to try to assist agriculture through tough times, and I think the Federal Government has gone the extra mile.

Most of the increase in USDA spending has been in the form of support prices, in the farm support area, due to the increasing cost of the farm legislation enacted in recent years.

We have here this chart that shows that most of the increases have been in the Commodity Credit Corporation spending, some of it in the Farmers Home Administration; 60 percent of it in CCC, and 28 percent increase in Farmers Home. That is the biggest portion of it. [See chart 4, p. 38.]

This also shows how the farm program costs have gone up. It is a stairstep. Back in the 1974–78 frame, $12.7 billion; the next step up, $27.7 billion in 1978–82. The farm bill we wrote in 1981 jumped on up to $63 billion over the most recent 4-year period. [See chart 5, p. 39.]

Now, I just submit to you, we are not going to get control of Government spending if we write a new bill that jumps on up once again and doubles the cost, as these past three have done. I think it is time we took a hard look at farm policy and wrote agricultural policy that has some kind of finite budgetary control in the cost of the programs.

We have one more here. OK. This is the total amount of outstanding loans owed to or guaranteed by the Department of Agriculture. It was $99 billion in 1981, right here. It has jumped up to nearly $150 billion. It is $180 billion right here in 1986. [See chart 6, p. 40.]

PORTFOLIO OF DEBT OUT OF CONTROL

Now, I will tell you why this happens We are loaning more money each year, either direct loans or guaranteed loans. The Federal Government is standing behind all of these loans, and it is our ultimate obligation to make them good, whatever happens. They are divided up—some CCC, Farmers Home loans, housing loans, Farmers Home development loans, and REA. And even though we have tried to cut back—and indeed, with the help of Congress, we have been successful in cutting back a little bit—we are still not getting control of this total portfolio of debt that is owed to the Federal Government, because there is not as much coming back as there is going out every year. And you can see what is happening—from $100 billion to $140 billion, in this short timeframe—and I submit to you that we cannot continue to go on in this direction. No matter what we would like to do, I do not think we can do it and do the kind of job we are supposed to do.

It should be noted that this growth represents a great contingent liability for Federal taxpayers.

The program level for all the Department's activities in 1986 is projected to decline by 17 percent from the 1985 level of $71 billion. Outlays are estimated at $38.5 billion for 1986, compared to $45.1 billion for 1985.

The proposed reductions are a first installment in the path of declining expenditures which will occur over the next 5 years. We project that over the fiscal 1986 through 1990 period, savings of about $60 billion can be achieved in the Department's budget. [See chart 7, p. 41.]

You can see that the path of the Department's budget is projected along the broken line. If we stay with current services and do not change the program and do not change the budget, it is going to go the other route. It is a decision that this Congress and administration jointly are going to make before it is over.

This chart shows the decreases and where they are. You saw the earlier chart, and you saw most of the increase over the last 4 years was in the CCC outlays. Well, the decreases, if our budget is enacted, will be in CCC, also, because we have to get control of that as well as some of the other spending areas. [See chart 8, p. 42.]

PROPOSAL CALLS FOR MARKET-ORIENTED FARM PROGRAM

These savings in large part will come from the passage of our farm program proposal. This proposal calls for a market-oriented farm program. It will set price support loans and target prices in relation to market prices. There would be a phaseout of the acreage reduction programs so that the farmers' production decisions are guided by market signals, rather than the Government. With these program changes, it is expected that farmers will derive a greater share of their income from the marketplace and be able to sell their products competitively in world markets.

The administration's farm bill proposal is expected to substantially reduce CCC outlays as compared to a continuation of current programs, and over the 1987-91 period, the proposed legislation is projected to save $40 to $50 billion in CCC outlays, compared to a continuation of current programs.

Now, what this chart is saying is that if the President's budget is enacted, the cost of farm programs will be in the range of $20 to $35 billion. If it is not, and we stay with the kinds of programs we have today, we will be spending between $60 and $85 billion—once again, a decision that the Congress and the administration will have to make, and I believe that the best approach is to move in the direction of controlling spending and of market-oriented agriculture.

Annual CCC outlays would generally drop from $10.5 billion in 1986 to about $3 to $5 billion annually over the 1989 to 1991 period, while a continuation of the current program would cause outlays to remain high, in the $12 to $17 billion range, and this compares to average annual CCC expenditures of $2.5 billion for the decade of the sixties and about $3 billion for the decade of the seventies. [See chart 9, p. 43.]

In historic terms, even after the reduction, Federal outlays are not miserly. They would be in the same range that we were spending in the seventies. We are talking about going back to the range we spent in the seventies, rather than the extremely high range we have spent in the last 4 years.

PROPOSED LEGISLATION DESIGNED TO ENHANCE EXPORT GROWTH

The farm legislation that we are proposing also is designed to enhance our exports and to recapture markets we have lost in the last several years. We believe the market-oriented farm bill that we are advocating will help U.S farmers compete on a favorable basis. Moreover, the administration is committed to promoting open access to world markets for our exports and to provide for fair trading practices in international markets.

We also will continue to enhance the U.S. image as a reliable supplier by eliminating the use of agricultural embargoes and by guaranteeing the sanctity of export contracts.

We also will continue to have the general sales manager make available the all-time high level of $5 billion in export credit guarantees to promote the sale of U.S. agricultural exports. We plan to keep the funding of the foreign agricultural service at a high level.

Another very important aspect of our export effort is Public Law 480, the Food Aid Program. Because of the critical food situation in Africa, we are requesting a supplemental program increase for food donations. With the supplemental, over $2 billion in Public Law 480 funding will have been made available during fiscal year 1985. We have also made available 300,000 tons of wheat from the food security reserve to assist countries experiencing major food emergencies.

We have also sold on a competitive bid basis $90 million of CCC commodities to African countries.

For 1986, we will be requesting a program level slightly below the 1985 level, but at a very high level in historic terms.

NEW COMMITMENTS WOULD BE DRASTICALLY REDUCED

Not only do we need to reduce outlays in the farm price support area. We also need to reduce the growth of credit programs in other areas of the Department. Under our proposed budget, new commitments under Farmers Home and REA credit programs would be drastically reduced. In fact, Government involvement in all areas except guaranteed farm operating credit would be essentially terminated. [See chart 10, p. 44.]

What we are talking about, instead of continuing with the annual growth in new credit, we are talking about reducing the amount of new credit that is put out each year. This is not going to correct all the problems in our loan portfolio, because as long as we are putting out any credit and not getting very much back, the portfolio, may well still continue to grow. But it will not grow as fast if we do not put out as much money each year.

Federal commitment to farm operating loans will be changed from direct loans to guaranteed loans. So we will be making guaranteed loans, but the total loans available will remain high, at the high levels established during the last 4 years. We are going to keep guaranteed loans at a high level in order to try to get farmers through this tough period of time, so that we do not lose any more farmers than we have to. That is the one area we are trying to continue to reach out to help farmers. [See chart 11, p. 45.]

Expansion of the Federal Crop Insurance Program will continue, but legislation will be proposed to phase out the Federal subsidies for administrative expenses and premiums which are presently provided to that program. And the budget also includes the proposed 1985 supplemental appropriation of $50 million to help ensure that the Corporation has sufficient cash to make timely payments on the current high level of claims, and a lot of that is coming in from the freeze in Florida, I might say.

In the domestic food assistance area, we are stressing management efficiency and effectiveness in carrying out these programs.

Food and Nutrition Service spending will continue to be constrained through efforts to improve efficiency and target Federal assistance to the most needy. The Food Stamp Program funding level will support the program, in line with current economic projections for 1986. Participation in the program will decline slightly, largely due to reduced unemployment. Funding for Women, Infants and Children Program will continue at the current participation level of about 3 million individuals each year. [See chart 12, p. 46.]

The budget proposes to discontinue the present 25 cents per meal subsidy for school lunches served to children from families above 185 percent of poverty, and that means a family of four with an income of about $19,000 and above would start paying the full freight for school lunches and would not get the subsidy. That would cause this change, this projected savings in the President's budget as compared to current services, if we did not change that means of doing it.

SPENDING IN MANY DISCRETIONARY PROGRAMS TO BE REDUCED

Finally, the budget includes proposals to reduce spending in many discretionary programs. These items individually may seem small. Cumulatively, they are significant. And they include here the reduction in conservation programs; funding and staffing for the Soil Conservation Service will be reduced to about 33 percent of the current level in 1987 and beyond. Assistance to watershed projects, and resource conservation and development districts will be discontinued. No new Federal assistance will be committed under the Agriculture Conservation Program for other ASCS financial assistance programs.

The Forest Service budget provides funds for a timber sales program of 10.7 billion board-feet—that is down from the 1985 level of 11.2 billion board-feet. Funding for research, State and private forestry and reforestation activities is reduced somewhat in the Forest Service.

Reductions in research and extension programs—funding for specifically earmarked State research and extension programs will be discontinued, while the current level of funding for State formula research and extension programs and Federal research programs will be continued. And I think we have kept a pretty good priority there on research.

New or expanded user fees for meat and poultry inspection; market news; grain inspection; and services to agricultural cooperatives—there will be user fees assigned here to cover a substantial part of the cost. Over a 3-year period, Federal funding for meat and poultry inspection will be offset by charging a user fee for those services, for that inspection service provided by the Government.

OTHER CONVINCING REASONS FOR REFORM

Beyond all of the obvious budgetary reasons for reform of these agricultural programs, there are some other very convincing reasons for change. And in fact, if we want to put American agriculture back on the path to prosperity, we must recognize this. We must recognize the current farm legislation that we are living with today for the cheap food policy that it is, because it is. How else can you describe past Government policies that have attracted excessive resources into agriculture, ultimately depressing prices for the family farmer, all of the time disguised as help for that farmer?

I want to give some examples. Low-interest loans. It is wonderful to receive low-interest loans. But we have a whole host of programs that provide low-interest loans. And what do they do? They provide more capital for more people to expand in agriculture, at the expense of the family farmers that have been there all along.

Rigid price supports, at levels that have attracted production on land that never would have produced crops. We have people plowing up fragile lands to get into our farm program so that they can qualify for direct deficiency payments, so that they can get the loan rate.

We have farmers that go into agriculture—not farmers, nonfarmers—non farmers that go into agriculture to take advantage of our tax laws. The tax laws provide tax benefits to those people who like to shelter their taxes, and they can shelter their taxes in agriculture. It is not helping the family farmer.

We have a grain reserve program that puts a big grain reserve out here. We tried to insulate it. It really does not get insulated from the marketplace. You end up with a whole lot of grain tied up in reserve, and it hangs like a big, dark cloud over our grain markets and it depresses prices for farmers.

Government purchase programs, such as dairy—why should the dairy industry go and find new markets, innovative ways to manufacture and sell dairy products, when they know the Government is going to buy the products up and buy those products from them at a profit? We have to change a program like that. It is costing the American farmer.

We have watershed projects, resource conservation and development districts, and drainage projects that the Federal Government funds. It is wonderful to have this done on your farm. I have had it done on my farm. We put in this structure some years ago; we have done a lot of things. They are great.

INCREASED PRODUCTION CREATING PROBLEMS

What do they do? Yes, they do help in conservation, but they do one other thing, almost every time. They increase production—in fact, they probably do more in increasing production than anything else. We help put in water lines for farmers sometimes, so that they can water the livestock; more production.

All of these programs are increasing production at a time when, really, we do not need more production, and it is just creating a problem for the American farmer. The programs are not doing any favors for the family farmer. They depress prices. They encourage unneeded competition.

Now, we know that the complex problems we face in American agriculture today cannot be solved simply by writing enlightened, consistent, new farm legislation. But if we do that, that is a good start.

Overall, we know that we are asking the Congress to make some very hard decisions. We believe that the times call for such difficult decisions.

We look forward to working with you, and we will provide all the assistance we can, as you proceed with your review of these important matters.

Mr. Chairman, that concludes my remarks, and I appreciate your time.

Chairman DOMENICI. Thank you very much, Mr. Secretary.

[The prepared statement of Secretary Block follows:]

Statement by
Secretary of Agriculture John R. Block
Before the
Senate Budget Committee

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the programs of the U.S. Department of Agriculture and our FY 1986 budget proposals.

The current and prospective fiscal year will be an extremely important period for the agricultural sector. During this period we will be considering a new farm bill, we will be acting on ways to reduce the Federal deficit, and in the next few months we will be trying to help financially stressed farmers through their difficulties.

We believe that it is important for the health of the agricultural sector as well as all sectors of our economy that the Federal deficit be reduced. The budget deficit and its impact particularly on interest and exchange rates has had a devastating effect on sectors such as agriculture. It is in the best interest of farmers and the nation to implement an effective means of controlling outlays and bring the deficit down. It was in this context that the President's budget was developed.

Even though USDA spending is a small part of the Federal budget (4.7 percent), USDA outlays have grown significantly in the past four years -- from $26 billion in FY 1981 to $45.1 billion now estimated for FY 1985. This rate of growth in USDA spending has been 50 percent greater than the growth in total Federal spending over this period -- a 73.5 percent increase in USDA spending versus a 47.3 percent increase in Federal spending. Most of the increase in USDA's spending has been in the farm price support area, due to the increasing cost of farm legislation enacted in recent years. There has also been tremendous growth in USDA's portfolio of outstanding loans. It should be noted that this growth -- with its great contingent Federal liability -- is largely obscured by the traditional Federal budget process. Through new farm legislation and other program changes, we are proposing significant reductions in USDA spending over the next few years.

Before addressing our specific budget proposals, I would first like to review the current agricultural situation.

Current Agricultural Situation

Over the past four years we have seen a divergence from past trends in the supply and demand for agricultural products. During the 1970's worldwide demand for agricultural products was outpacing supply. Foreign trade was growing at a rapid rate and stocks were reduced. Many prognosticators were forecasting a continuation of the high growth in demand into the 1980's and 1990's. However, these forecasts proved to be wrong. In only a few short years, a surplus supply situation developed. A worldwide recession and mounting debt problems in the developing world slowed demand growth. At the same time, global supplies increased greatly because of favorable growing conditions and the incentives provided by governments, including the U.S. with our increasing loan rates, and target prices. As a result, exports fell and our stocks grew to excessive levels.

To reduce these excessive stocks, we implemented the 1983 payment-in-kind (PIK) program -- the largest acreage reduction program in history. However, other countries increased their production of most commodities when we were cutting back, placing the burden of global adjustment almost entirely on the U.S. farmer and the American taxpayer. As a result of PIK and the drought we experienced, U.S. crop output in 1983 was reduced 14 percent below the 1980 level.

Growing conditions during crop year 1984 were much improved from 1983. Our estimates indicate expanded domestic production and a modest increase in export volume. Stocks will remain high and prices will be at or near loan rates for most commodities. Net farm income for calendar year 1985 will probably fall within a range of $19 to $24 billion compared to $29 to $33 billion expected for 1984.

The outlook for the rest of the 1980's points to a continuation of the current supply and demand imbalance. Although there could be years of production shortfalls, the adoption of new technology could be a source of rapid agricultural output increases.

This is the environment in which the new farm bill will operate. The choice before us is whether we want to maintain the costly current programs and become even less competitive in world markets or whether we want to have market-oriented programs that allow our farmers to make use of their great efficiency and productivity to compete for world markets. We believe the latter course is the one that should be followed, not only because it will lead to a more prosperous farm sector over the longer term, but because it will also reduce the burden on taxpayers and the Federal deficit.

Farm Credit Situation

The farm credit situation is receiving more attention than ever before. During the 1970's, land value appreciation exceeded the cost of borrowing; thus, for many farmers, it made economic sense to borrow against the land to finance the purchase of additional land or equipment. Today, the situation is reversed, and those who borrowed heavily to finance land purchases at inflated prices are now experiencing capital losses and may be forced to relinquish ownership of the land. As a result, many farmers are under financial stress.

While we sympathize with those farmers who are being forced to make adjustments to the new economic conditions, it should be recognized that not all farmers are in the same condition. Those farmers who have not been efficient enough to earn an adequate return on their operating capital, labor and management and have survived so far by borrowing against their equity in land will find it difficult to continue farming. On the other hand, those farmers who are efficient enough to compete in the market may only need to restructure their debts. Some of these farmers may need to sell off some of their assets. In spite of all the financial difficulties, opportunities still exist for farm ownership. These opportunities may be enhanced in the long run as land values tend to stabilize and reflect more fully actual returns from production rather than inflation.

It also should be recognized that the market for farm credit for operating purposes is working. Total farm debt declined slightly last year to a level of about $213 billion, reflecting a decrease in net lending, primarily by CCC, individuals and other non-institutional lenders, as well as the Production Credit Associations. However, net lending by banks increased by $2.8 billion in 1984. Banks received repayments on farm operating loans amounting to nearly $60 billion (down from about $67 billion in 1983) while they made new loans of about $63 billion (down from about $70 billion in 1983). These banks account for about 40 percent of the $102 billion debt outstanding for farm operating purposes.

These figures show that banks are making operating loans to farmers and that farmers, in turn, are repaying these loans. Loan-to-deposit ratios at banks have also improved over the last few years, indicating that farm operating credit is available for those who can show repayment ability. Furthermore, interest rates on farm operating loans have declined significantly and, hopefully, will continue to decline.

Now, let me turn to the role of the Federal Government in providing farm credit.

On February 6, 1985, I announced a number of additions to the President's program of farm credit initiatives that have been in effect since September of last year. In short, the additions provide for improved cooperation and monitoring of the farm credit situation, greater forebearance in servicing farm borrowers who are in trouble, and increased flexibility in the administration of FmHA's farm lending. One specific change -- allowing private lenders the option of writing down interest instead of principal to qualify borrowers for FmHA's guarantee of the loan balance -- was made at the request of private lenders. We now expect to see a significant increase in participation by these lenders in the FmHA program. FmHA has about $600 million still available for guaranteeing farm operating loans this year. For FY 1986, we are requesting that the program be increased to $3 billion.

FmHA also stands ready to serve its 270,000 farm borrowers through deferrals, subordinations, rescheduling and refinancing. In FY 1984, about 65,000 borrowers received such assistance. Many more borrowers are likely to be so assisted in FY 1985 as part of the President's farm credit initiatives. In FY 1986, and beyond, FmHA will continue to service its existing caseload, while shifting from direct to guaranteed lending in making new loans.

FmHA's servicing actions are being undertaken on a case-by-case basis. Every effort will be made to provide the proper assistance needed by the individual borrowers. FmHA's record of success in providing this assistance has been remarkable -- over 97 percent of its borrowers are able to stay in business, year after year, even though they have been denied credit by other lenders. We are confident that the agency will continue to achieve the highest possible level of success in keeping its borrowers in business.

It also should be noted that the Commodity Credit Corporation (CCC) has been providing significant amounts of operating cash to farmers to keep them going during this difficult period. Between December 1984 and April 1985, it is estimated that CCC will have provided over $12 billion in loans and direct payments to farmers, representing over 75 percent of the expected total of CCC loans and payments during FY 1985.

With this background on the state of farm credit and agriculture in general, I would like to discuss our budget proposals for FY 1986.

Budget Proposals for FY 1986

The program level for all the Department's activities in FY 1986 is projected at $58.4 billion. This level of activity is $12.2 billion below the estimated $70.7 billion level for FY 1985. Outlays are estimated at $38.5 billion for FY 1986 compared to $45.1 billion for FY 1985. The reduction results from a number of program changes that are required to help reduce the Federal deficit. The reductions proposed for FY 1986 are a first installment in the path of declining expenditures which will occur over the next five years. We project that over the FY 1986-1990 period savings of about $60 billion can be achieved in the Department's budget. Most of these savings (66 percent) will come in the price support and related expenditures of the CCC.

In recent years, CCC outlays for farm price support activities have risen dramatically as large crops and reduced exports have created grain surpluses. In FY 1983, CCC outlays reached an all time high of $18.9 billion. The PIK program and the 1983 drought reduced these outlays to $7.3 billion in FY 1984, but outlays are currently projected to increase to $15 billion for FY 1985. For FY 1986, outlays are projected to be about $10.5 billion. They are lower because part of the deficiency payments for the 1985 crops are being advanced and will be paid in FY 1985 rather than FY 1986. Also, no advance payments for paid acreage diversion programs for the 1986 crops are included because no such programs are assumed to be offered.

The 1985 Farm Bill will have no appreciable impact on outlays in FY 1986 since these outlays are largely associated with the 1985 crops, which are covered by the 1981 Act, as amended. The new Farm Bill will take effect with 1986 crops and will primarily affect outlays in FY 1987 and subsequent fiscal years.

The legislation the Administration is proposing calls for a market-oriented farm program. Our Farm Bill would set price support loans and target prices in relation to market prices and there would be a phase-out of acreage reduction programs so that farmers' production decisions are guided by market signals rather than the government. With these program changes, it is expected that farmers will derive a greater share of their income from the marketplace and will be able to sell more competitively in world markets.

The Administration's Farm Bill proposal is expected to generate significant savings when compared to a continuation of current programs. If current programs were continued, projected CCC outlays would range from $60-$85 billion over FY 1987-1991. This would continue the upward trend in the cost of farm legislation -- from $12.7 billion under the 1973 Farm Bill to $27.7 billion under the 1977 Farm Bill to an estimated $63.3 billion under the 1981 Farm Bill.

Our proposal, on the other hand, should reduce CCC outlays to between $20-$35 billion over FY 1987-91 and would be more in line with the outlays of the 1960's and 1970's. Annual CCC outlays would gradually drop from $10.5 billion in FY 1986 to $3-$5 billion annually over the FY 1989-91 period. A continuation of current programs would cause outlays to remain high -- in the $12-$17 billion range annually. Thus, the proposed legislation would save about $40-$50 billion over the FY 1987-91 period.

Export Market Development

Expansion of U.S. agricultural exports remains a top priority of this Administration. The farm legislation we are proposing is designed to enhance our export growth and to recapture markets we have lost in the past several years. We believe the market-oriented Farm Bill we are advocating will help U.S. farmers compete on a more favorable basis. Moreover, the Administration is committed to promoting open access to world markets for our exports and to provide for fair trade practices in international markets. In this regard we are beginning discussions in the GATT Committee on Trade in Agriculture to address these matters. We also will continue to enhance the U.S. image as a reliable supplier by eliminating the use of agricultural embargoes and by guaranteeing the sanctity of export contracts.

For FY 1985 and FY 1986, the General Sales Manager will make available the all-time high level of $5.0 billion in export credit guarantees to promote the sales of U.S. agricultural exports. Over the period FY 1982 through FY 1986, we will have made available some $22 billion in export credit guarantees to finance the sale of U.S. agricultural products abroad. In addition, $325 million in CCC direct export credit will be made available during FY 1985. A portion of this direct credit will again be used in the blended credit program that was begun in FY 1983 to meet credit competition from other exporters.

We also plan to continue funding the Foreign Agricultural Service (FAS) in FY 1986 near the FY 1985 level. In its foreign market development program, FAS will continue to emphasize country and commodity combinations where there is a high pay-off from the expenditure of Federal funds. The FAS program is increasingly being focused on developing country markets with strong growth potential.

Another important aspect of our export effort is the P.L. 480 food aid program. Because of the critical food situation in Africa, the Administration is requesting a supplemental program increase of $201 million for food donations under Title II in FY 1985. With the supplemental, the amount of P.L. 480 funding to be made available in FY 1985 will exceed $2.0 billion and result in an estimated programmed tonnage of 8.5 million metric tons (MMT). In addition to the quantity provided under P.L. 480, the President has also made available 300,000 tons of wheat from the Food Security Wheat Reserve to assist countries experiencing major food emergencies, and we have sold on a competitive bid basis $90 million of CCC commodities to African countries. For FY 1986, we will be requesting a P.L. 480 program level of nearly $1.7 billion, which will finance the shipment of 6.9 MMT. This request is slightly higher than the P.L. 480 request in the President's original 1985 budget submission.

Small Community and Rural Development

The FY 1986 budget proposes significant reductions in this area, reflecting the intent of the Administration to reduce the Federal deficit and dependence on the Federal Government as a provider of credit. However, the Department will continue to incur significant outlays for subsidy costs and losses on loans made in prior years. Reductions in new loan activity will permit a reduction in staffing primarily within FmHA.

Farm Credit. Guaranteed farm operating loans will be increased from $650 million in FY 1985 to $3 billion in FY 1986. This increase will more than offset a reduction in insured loans from $1,920 million in FY 1985 to $400 million in FY 1986. The shift in emphasis to guaranteed loans will allow the FmHA to concentrate on the servicing of its existing borrowers. It will also provide for greater participation by the private sector in the financing of farm operating expenses.

Legislation will be proposed to limit emergency disaster loans to those areas where federal crop insurance is not available, and to eliminate the interest rate subsidy on farm operating loans. New lending under farm ownership loan program and other real estate loan programs will be terminated.

Rural Housing. These programs will be terminated in FY 1986 except for $30 million in loans for repairs to low-income housing financed by FmHA and $50 million in rental assistance payments. In the future, housing assistance for rural areas will be obtained through the Department of Housing and Urban Development (HUD). Beginning in FY 1988, HUD will earmark 50 percent of its Section 8 housing subsidy funds for rural areas.

Rural Community Facilities. Water and waste disposal loans will be reduced from $340 million in FY 1985 to $50 million in FY 1986, and grants will be reduced from $117 million to $25 million. These funds will be restricted to very low-income communities experiencing health and safety hazards and not otherwise able to obtain financing.

The community facility and business and industry loan programs will be terminated.

Beginning in FY 1986, HUD will increase its earmark of community development block grants for rural areas from 30 percent to 40 percent to offset the reduction in FmHA's programs.

Rural Utilities. Federal participation in the Rural Electrification Administration programs will be phased out by FY 1990. For FY 1986, the Rural Electrification and Telephone programs will be reduced to $1.1 billion from a level of $2.6 billion in FY 1985. Legislation will be proposed to increase interest rates, restrain eligibility to the financially weaker borrowers, and bring the programs on-budget.

Crop Insurance. Legislation will be proposed to provide for the phase out over the next five years of all Federal costs for operating the crop insurance program. These costs, including administrative expenses and premium subsidies, will be incorporated in the premium rate structure paid by participating producers. For FY 1986, under such legislation, Federal Crop Insurance Corporation will require appropriations of $164.3 million for administrative expenses, which compares to $239.2 million required for FY 1986 under current legislation and $198.6 million estimated for FY 1985. Correspondingly, FCIC will require $92.0 million in premium subsidies for FY 1986 under the proposed legislation, which compares to $135.0 million for FY 1986 under current legislation and $110.0 million estimated for FY 1985.

We are also proposing a supplemental appropriation for subscription of the remaining $50 million in authorized capital stock. Without prompt action on the supplemental request, payment of indemnities could be delayed this spring.

Soil and Water Conservation

Funding and staffing for the Soil Conservation Service would be reduced to about 33 percent of current levels in FY 1987 and beyond. Essential technical assistance and soil survey activities would be continued. Assistance to watershed projects and to resource, conservation and development districts would be discontinued. No new financial assistance would be committed under the agricultural conservation program or other conservation financial assistance programs.

While the FY 1986 program and budget proposal is driven primarily by fiscal policy considerations, it also reflects: 1) the outlook that the economic incentives to devote marginal, erosion-prone land to row crops will be lessened once the Administration's new farm legislation is enacted, 2) the general policy that Federal programs of financial assistance to individuals and state and local units of government should be reduced, especially in those cases where economic incentives or existing non-federal institutions might come more significantly into play in the absence of current levels of Federal assistance, and 3) the general recommendation from the Grace Commission that major economies could be achieved by limiting federal staffing in conservation district offices.

Forest Service

The budget request for the Forest Service is $1.8 billion. This level represents a decrease of $269 million from the current estimate for FY 1985, not including the proposed supplemental for fire suppression. The budget provides sufficient funds for a timber sales level of 10.7 billion board feet (bbf), down slightly from the 1985 level of 11.2 bbf. This level of new sales, together with inventories of previously sold but uncut timber, is sufficient to support the National Forests' contribution to new housing starts over the next several years.

Funding is provided for the nonrecurring costs connected with the jurisdictional interchange program between the Forest Service and the Bureau of Land Management (BLM). The program will involve about 34 million acres of Federal land and will ultimately save $30 million annually. The Forest Service will assume land management responsibility for about 19 million acres while relinquishing responsibility for 15 million acres to BLM.

Funding for research, state and private forestry, reforestation, fire protection and recreation is reduced in line with the general need to hold down Federal spending.

Research and Extension

The Department continues to place a high priority on research and extension activities. However, as fiscal constraints have tightened, we must accept the need to reduce some lower priority programs and make management savings even within the research and extension area.

We are proposing a very small decrease in the budget of the Agricultural Research Service. This is composed of management savings, partially offset by program increases in a few of the higher priority areas. Most of the Cooperative State Research Service formula programs will be straightlined at the FY 1985 appropriations level. Special Research Grants and the Animal Health and Disease Formula funding are being eliminated. In many cases, the research problems addressed by these two programs are also addressed by other ongoing programs.

The proposal for the Extension Service budget also reflects the need to fund only the highest priority programs. All earmarked programs are proposed for termination. While many of these programs have been successful, we must simply find ways to reduce Federal spending.

Economics and Statistics

The Department continues to place high priority on maintaining the integrity and coverage of agricultural statistics and economic analysis programs. Timely and accurate statistics and economic analysis are critical for the effective management of many Departmental programs and for informed decision-making by both the Administration and the Congress. Farmers and other users also rely on accurate data and analysis in managing their operations.

Two small but important initiatives are included for FY 1986. The first would expand our farm labor survey from an annual to quarterly basis to improve the reliability of this data for all users. The second would enhance our efficiency in the preparation of crop and livestock reports.

Marketing and Inspection Services

Last year I reported that the Department was involved in an emergency program to eradicate a serious outbreak of avian influenza in Pennsylvania which was threatening the entire U.S. poultry industry. Our efforts, which were coordinated and carried out by the Animal and Plant Health Inspection Service, have been successful and have allowed us to lift the general quarantine in Pennsylvania in October 1984. While we have spent more than $64 million of CCC emergency funds so far, our activities in FY 1985 will be limited to surveillance only. In addition, the Department has spent slightly over $1.0 million on eradication of grasshoppers and citrus canker.

For FY 1986, we are proposing a $14.9 million reduction in the brucellosis program. The purpose is to phase down the Federal role without sacrificing the goal of nationwide eradication. We intend to accomplish this through a more disciplined approach that will require highly infected states to submit detailed plans of action and to contribute a greater share of program financing. Once total eradication has been achieved, we intend to maintain a surveillance role only.

We are pleased to report the establishment of the screwworm barrier and quarantine line in southern Mexico. Maintenance of this barrier will ensure a high degree of protection to the United States and Mexico against future screwworm reinfestations. Furthermore, it will enable the Department to reduce screwworm funding by $8.2 million in FY 1986.

We are also proposing to reduce or phase out the Federal Government's involvement in several pest and disease control programs in cases where the states or industry have the capability of conducting the programs, or where technology is not currently available to prevent the spread of the pest. Programs in this category include animal welfare, witchweed, and imported fire ant. In addition, the budget proposes new legislation to authorize the Department to charge user fees for certain activities which benefit a small and identifiable group of users. These activities include the certification of plants and animals for export, the quarantining of animals being imported, and the veterinary biologics program, and will provide annual savings of $12.3 million.

Our request for the Food Safety and Inspection Service reflects a continued emphasis on management efficiencies and new inspection techniques. These efforts will allow us to assure a safe and wholesome meat and poultry supply without increased funding or staffing levels.

Legislation to provide for recovery of meat and poultry inspection costs through user charges is included in our proposal. Beginning in FY 1986, one-third of total program funds would be derived from fees. By FY 1988, the program would be fully fee-supported. Direct deposit of fees to the Treasury and continuation of an annual appropriation is proposed as a means of avoiding any perception that industry is directly employing our inspectors. In no way would our proposal compromise the independence of inspection. Enactment of another proposal would enhance our ability to take immediate action to withdraw inspection from plants with serious violations.

We are again proposing legislation which would permit us to respond more efficiently to the inspection needs of the meat and poultry processing industry. In the years since enactment of legislation establishing our meat and poultry inspection programs, significant technological advances have occurred in food processing techniques and our ability to monitor those operations. Recognizing the impact of those changes on conditions in the industry, we are proposing legislation to permit flexibility in scheduling processing inspection. We estimate that our proposal will save about $45 million over the FY 1986-1990 period.

During the past four years, we have cooperated in successfully implementing user charges to recover marketing program costs from those benefiting from the services. For example, user fee programs of the Agricultural Marketing Service (AMS) now represent 75 percent of the agency's funding versus roughly 50 percent in 1981. Additional opportunities to provide services on a user fee basis still exist in certain marketing and inspection programs. Our FY 1986 request for AMS includes a $23 million shift from appropriated funds to user fees. User fee collections for the Federal Grain Inspection Service, the Agricultural Cooperative Service and the Packers and Stockyards Administration will fund $8.6 million of activities which are currently funded through direct appropriations.

Domestic Food Assistance Programs

We are stressing management efficiency and effectiveness in our domestic food assistance programs. There have been improvements in the last four years. The number of fraud claims established in the Food Stamp Program have increased substantially and the amounts collected have nearly quadrupled. Income verification has been instituted in the school food programs and there have been few complaints from schools or individuals.

The budget for the Food and Consumer Services Programs for FY 1986 is $18.3 billion, about $281 million less than the current estimate for FY 1985.

Food Stamp Program. For FY 1985, a $318.9 million supplemental is requested for the Food Stamp Program to allow for full payments to all eligible recipients for the full year. This will increase the current FY 1985 funding level from $11.43 billion to $11.74 billion.

A FY 1986 budget of $11.86 million is requested for the Food Stamp Program. This represents a net increase of $113 million from the proposed 1985 funding level of $11.74 billion. Benefits to households will increase due to a projected rise in the value of the Thrifty Food Plan. A slight reduction in participation is expected based on a lower projected level of unemployment. Also, the budget anticipates about $56 million in savings during FY 1986 due to two proposed changes.

First, the Administration is proposing to freeze funds for state administrative expenses at the FY 1985 level and to change the method of providing Federal administrative support to a fixed grant for state administration costs. Currently, the Federal Government pays the states for approximately 50 percent of all allowable administrative expenses. The second proposed change is to require states to conduct a Community Work Experience Program. Such a program will give employable food stamp recipients valuable work experience, as well as providing millions of dollars of needed work to local communities.

Nutrition Assistance to Puerto Rico. A block grant of $825 million for Nutrition Assistance to Puerto Rico is requested at the same level of funding as FY 1985.

Child Nutrition Programs. The FY 1986 budget for the Child Nutrition Programs is $3.8 billion, $381 million less than the current estimate for FY 1985. Savings will result primarily from a proposal to eliminate the subsidy for meals served in schools and child care programs to children from households with an income level over 185 percent of poverty. The level of the commodity purchases for the Child Nutrition Programs will be protected by a companion proposal to restructure the cash and commodity subsidy rates for the free and reduced price meals.

Moreover, as proposed in many Federal programs, the 1986 cost-of-living adjustment will not be made.

Supplemental Food Programs. In FY 1985, the $1.44 billion in funds available for the Women, Infants, and Children (WIC) Program will provide assistance to approximately 3 million participants per month.

In FY 1986, the Administration's WIC funding request of $1.48 billion will continue to provide assistance to about three million participants per month. The proposed FY 1986 funding level of $34 million for the Commodity Supplemental Food Program will also continue to support the FY 1985 participation level of about 148,000 people per month.

Other Domestic Food Assistance Programs. For FY 1986, the Administration is proposing a program level of $174.6 million for the Food Donations Program, which provides commodities to Indian Reservations and to the Nutrition Programs for the Elderly. This is a slight increase above the FY 1985 level to allow for food cost inflation in the Indian Program. No increase in participation is expected in the Special Milk Program which will be funded at $17.7 million in FY 1986.

We are continuing to provide additional support to many of the food assistance programs in the form of donated commodities. The donated commodities are those acquired either through our Section 32 surplus removal efforts or through the price support operations of the CCC. The commodities are given to schools, charitable institutions, soup kitchens or food banks. Since the Temporary Emergency Food Assistance Program legislation authorization will expire, the Department has not requested administrative funding for the program.

Human Nutrition Information Service. The budget request is $13.4 million, $5.9 million above the FY 1985 level. The additional funding will be used to conduct the Nationwide Food Consumption Survey, which is conducted at 10-year intervals.

Departmental Management and Administration

The FY 1986 budget proposes an aggregate reduction in funding of over 11 percent for the various offices in the Department concerned with management and administration. These offices have been subject to a reduction in funding based on the government-wide management and administrative savings initiative.

Management Initiatives

As part of its program to reduce the deficit, the Administration has initiated government-wide management improvement efforts. The Deficit Reduction Act of 1984 proposed reduction targets for motor vehicles, travel and transportation, public affairs, printing and consultant services. USDA has accepted its responsibility to achieve these savings and is proposing reductions of $49.2 million in FY 1985. The FY 1986 budget reflects savings of $86.6 million to be achieved through efforts to streamline administrative and management functions.

We have developed a strategy for improving program management and administrative support in USDA. We are committed to a program to modernize and improve management structures, systems, and methods.

The plan addresses five key resource areas -- the dollars, information, structure, people, and the management process itself. We will be working with the Congress, USDA employees, constituent groups, and policy leaders to develop and implement specific actions and programs.

Mr. Chairman, this concludes my formal statement. I appreciate the opportunity to present the Department's FY 1986 budget proposal to the Committee and look forward to working with you.

I will be happy to address any specific concerns that you have.

CHART 1

USDA Percentage of Federal Outlays FY 1981-1985

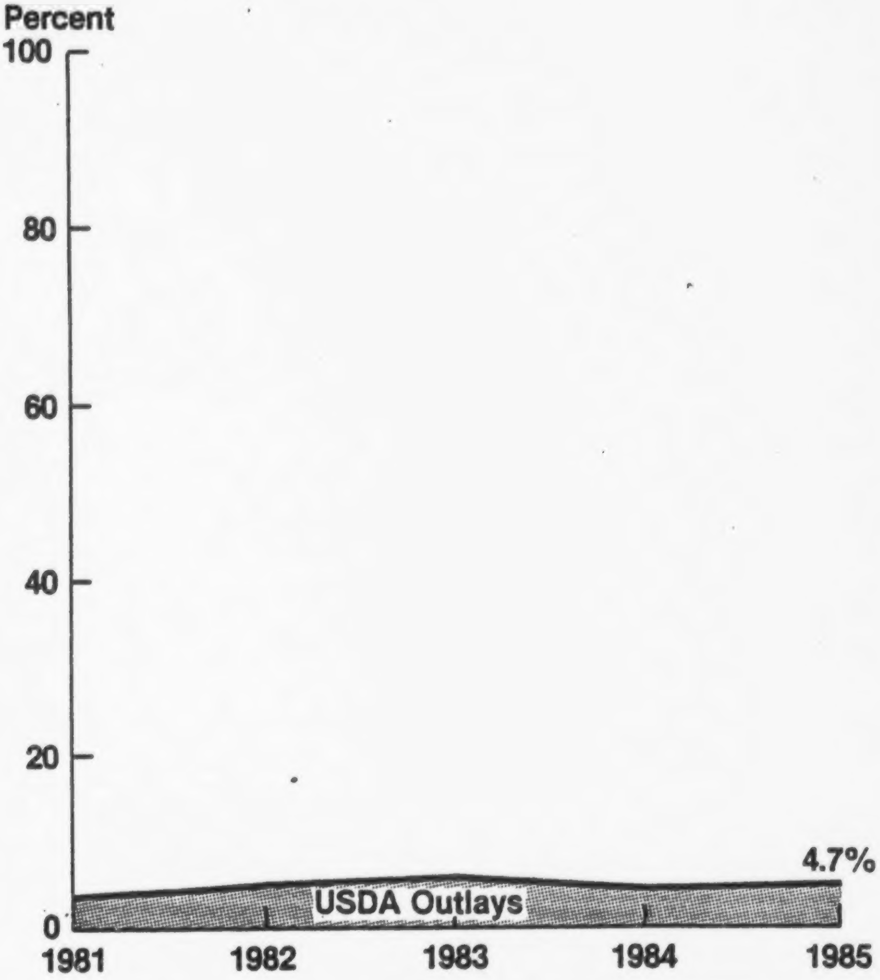


CHART 2

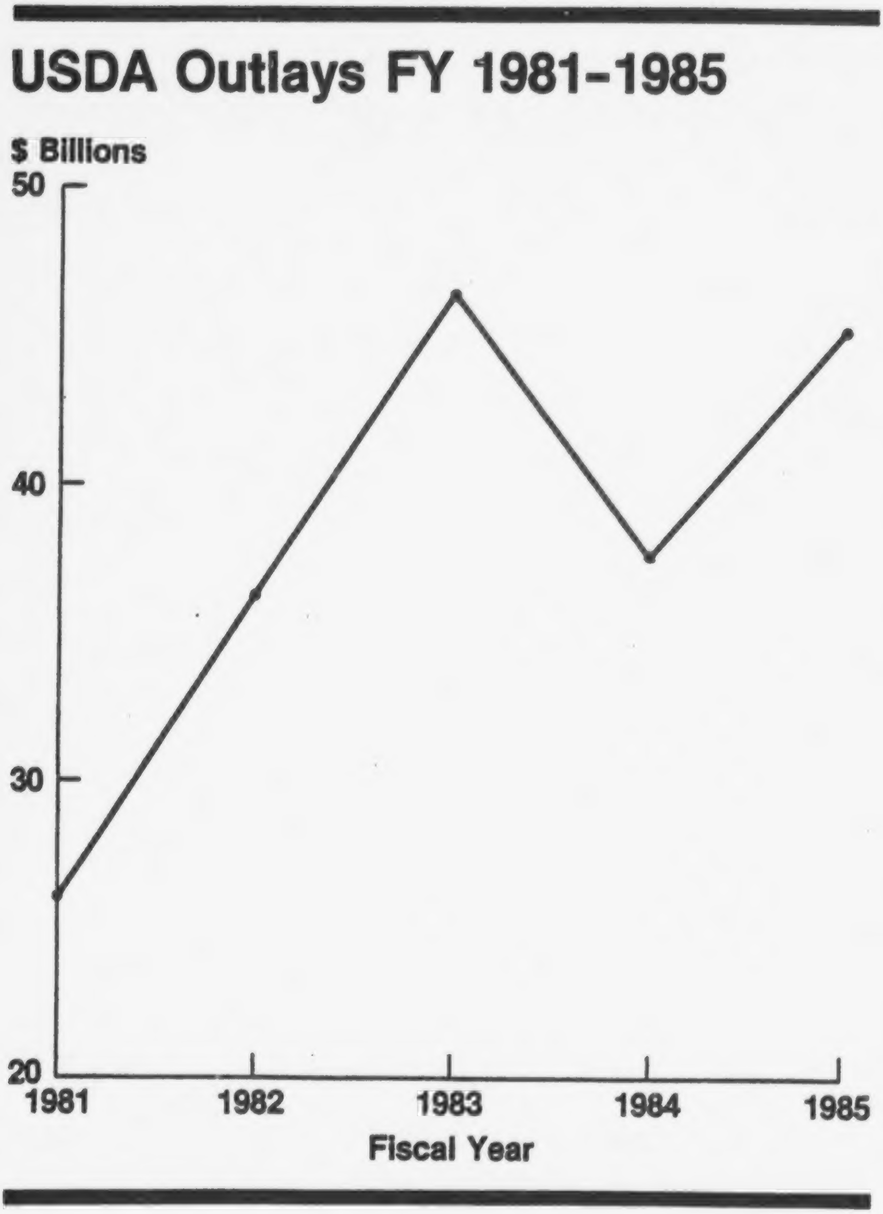

USDA Outlays FY 1981-1985
$ Billions
50
40
30
20
1981
1982
1983
1984
1985
Fiscal Year

CHART 3

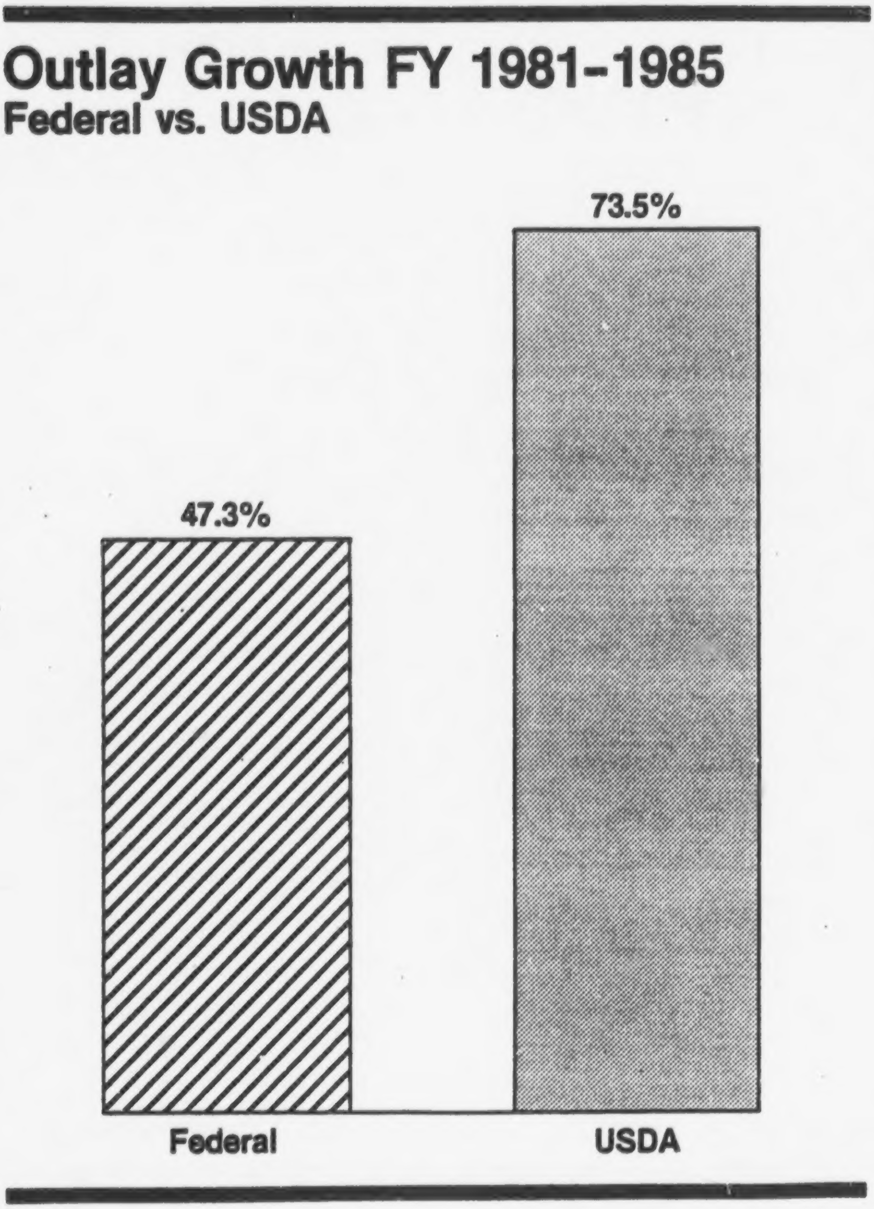

Outlay Growth FY 1981-1985
Federal vs. USDA
47.3%
73.5%
Federal
USDA

Chart 4

$61 Billion USDA Outlay Increase FY 1981-1985

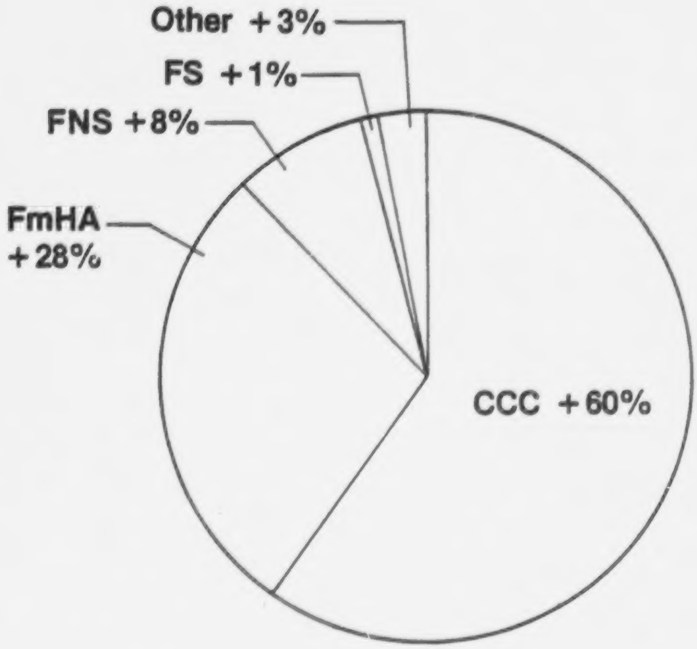


CHART 5

Increasing Cost of Farm Bills FY 1974–1986

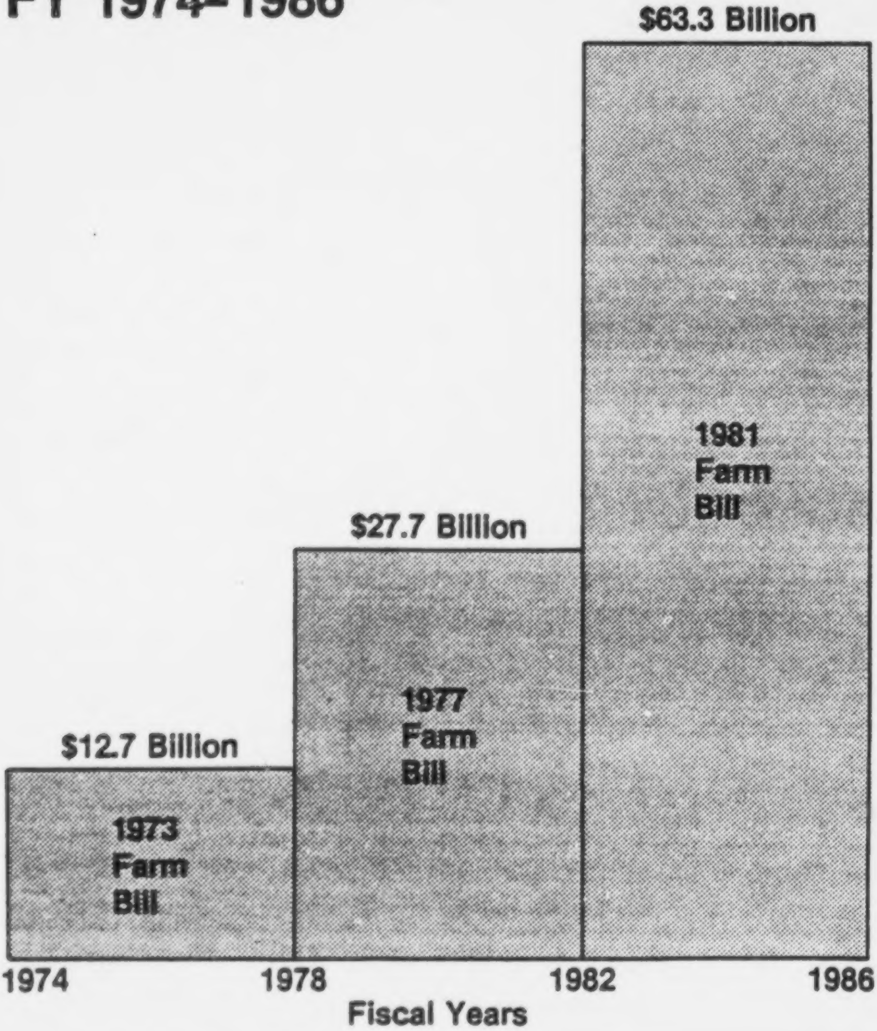


CHART 6

Loans Outstanding by Program or Agency

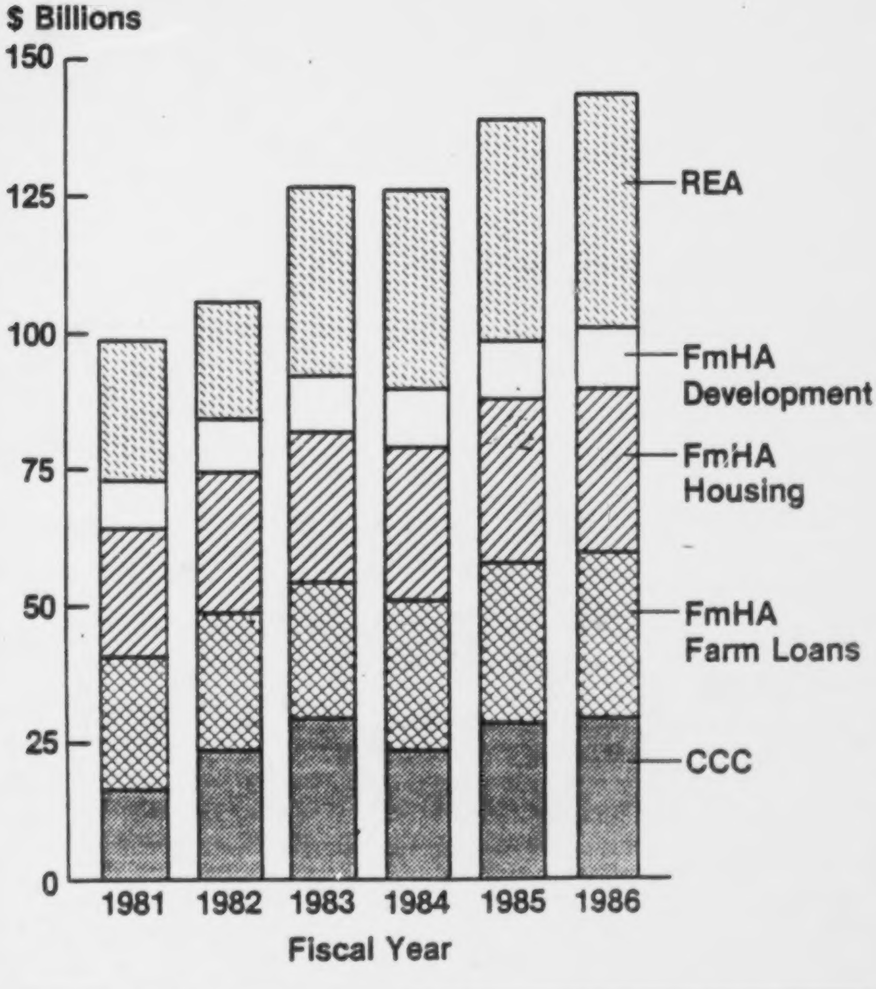
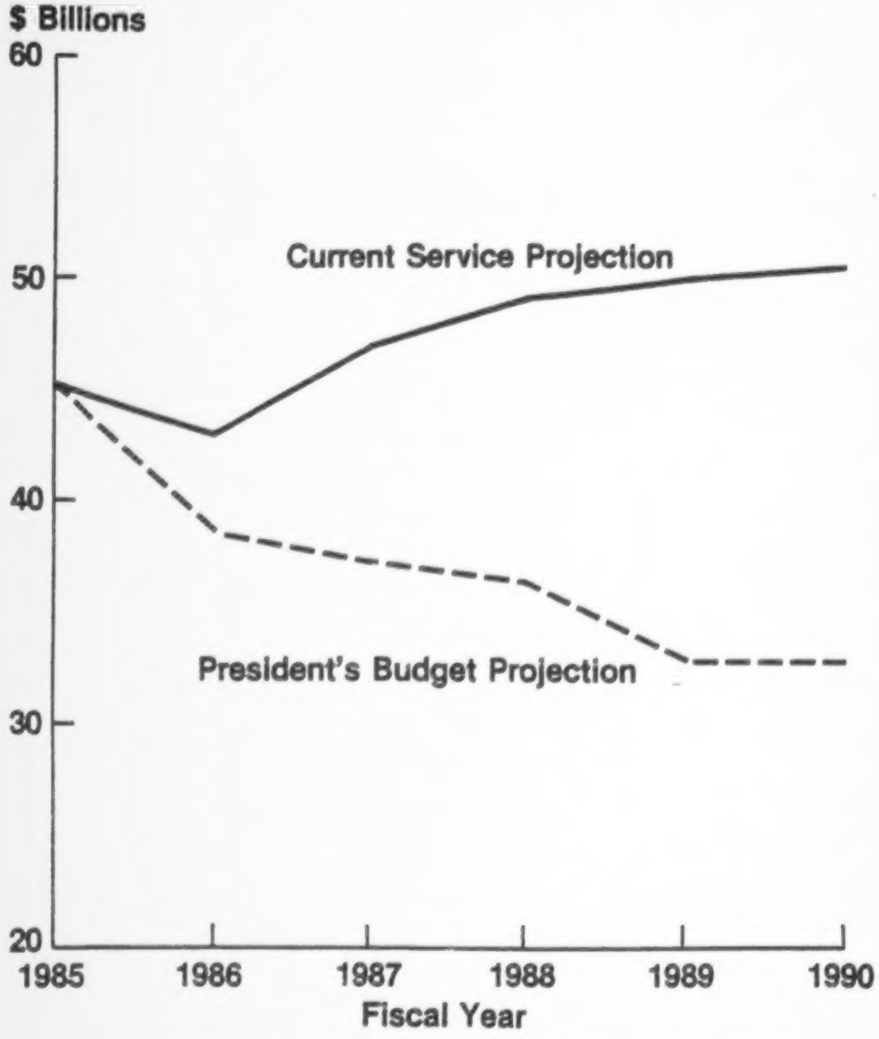


CHART 7



USDA Outlays FY 1985–1990

Chart 8

$60 Billion USDA Reductions FY 1985-1990

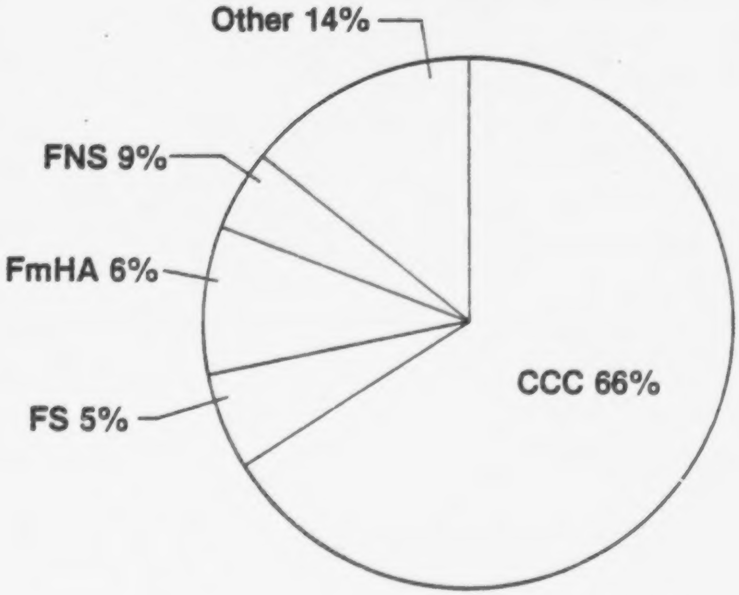


CHART 9

Cost Estimates for the 1985 Farm Bill

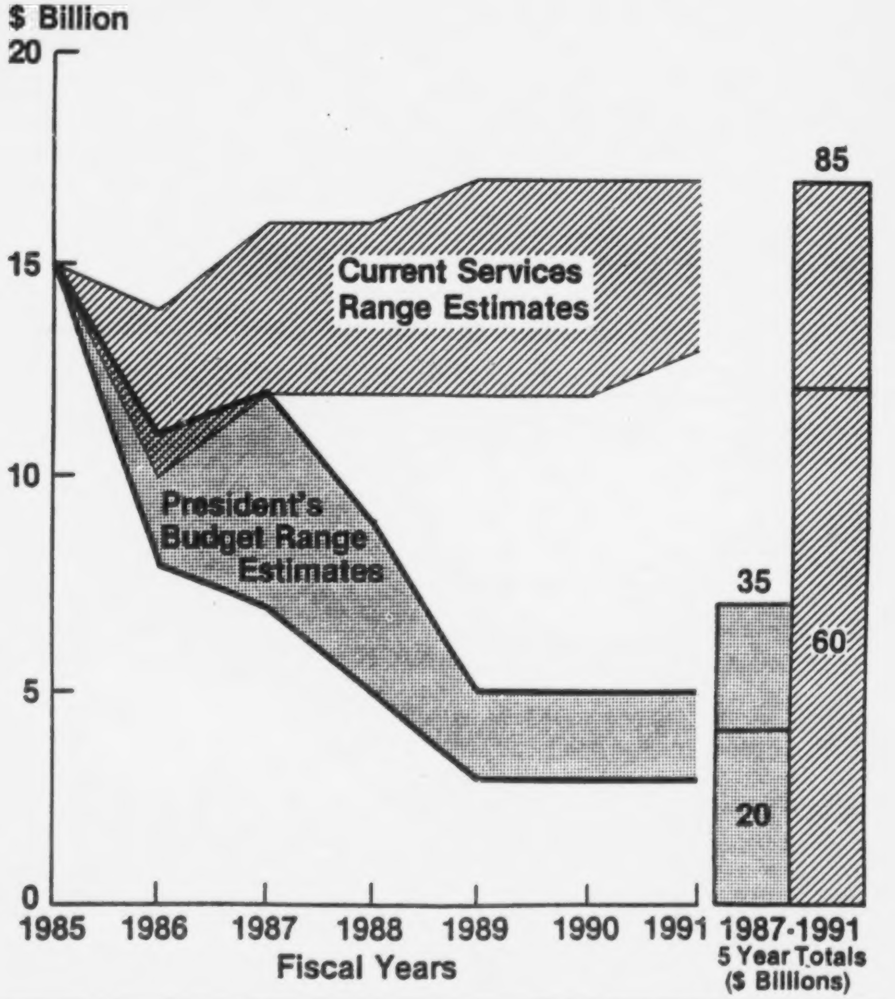


CHART 10

Rural Credit (FmHA and REA) New Loans FY 1985–1990

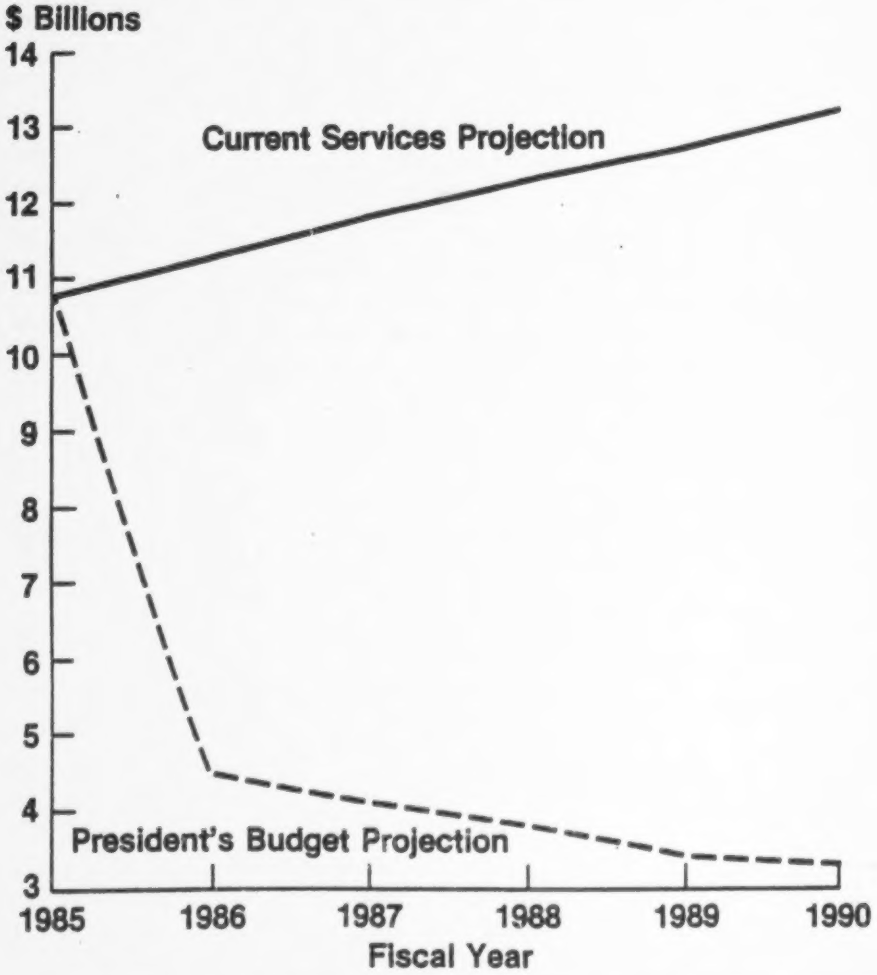


CHART 11

Farm Operating Loans

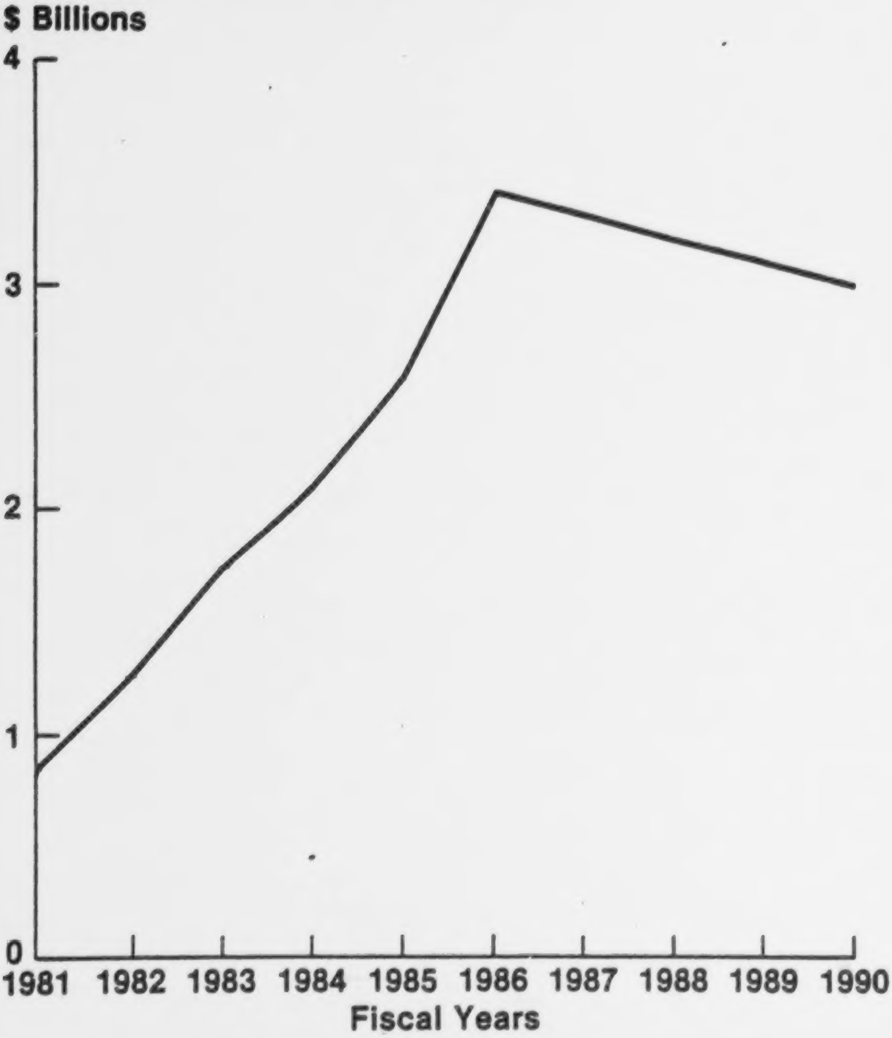


Chart 12

FNS Budget Authority

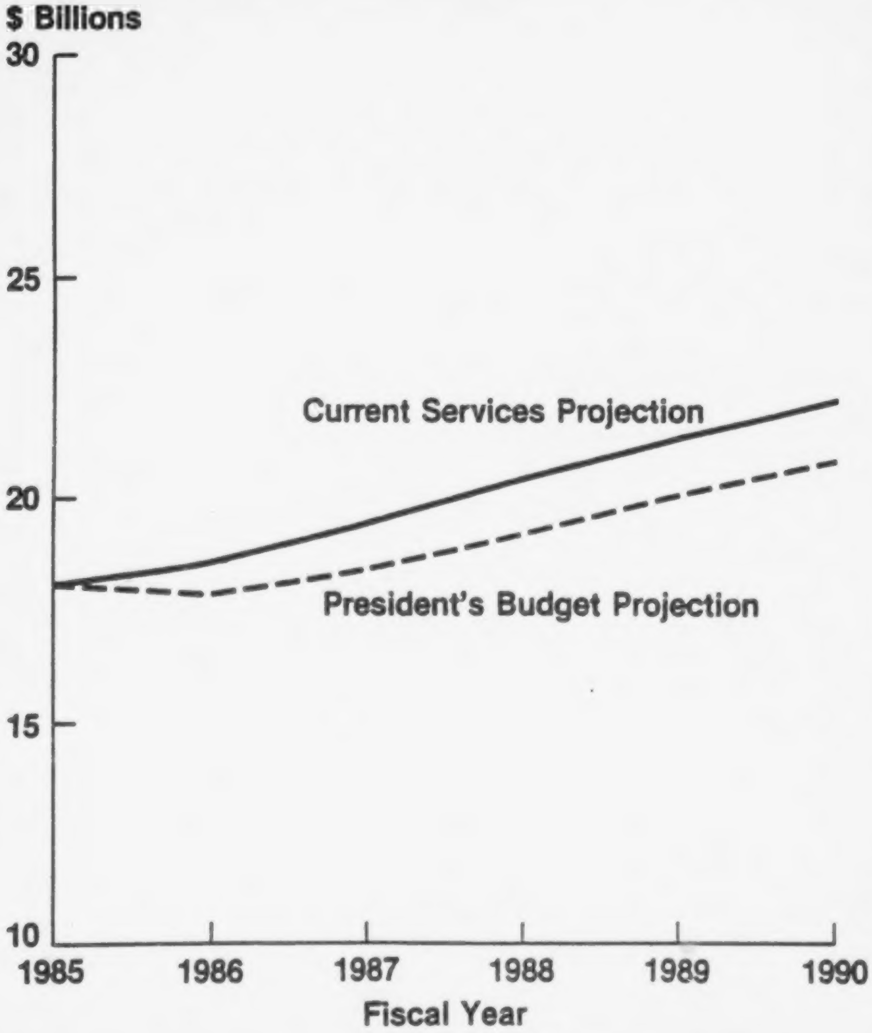


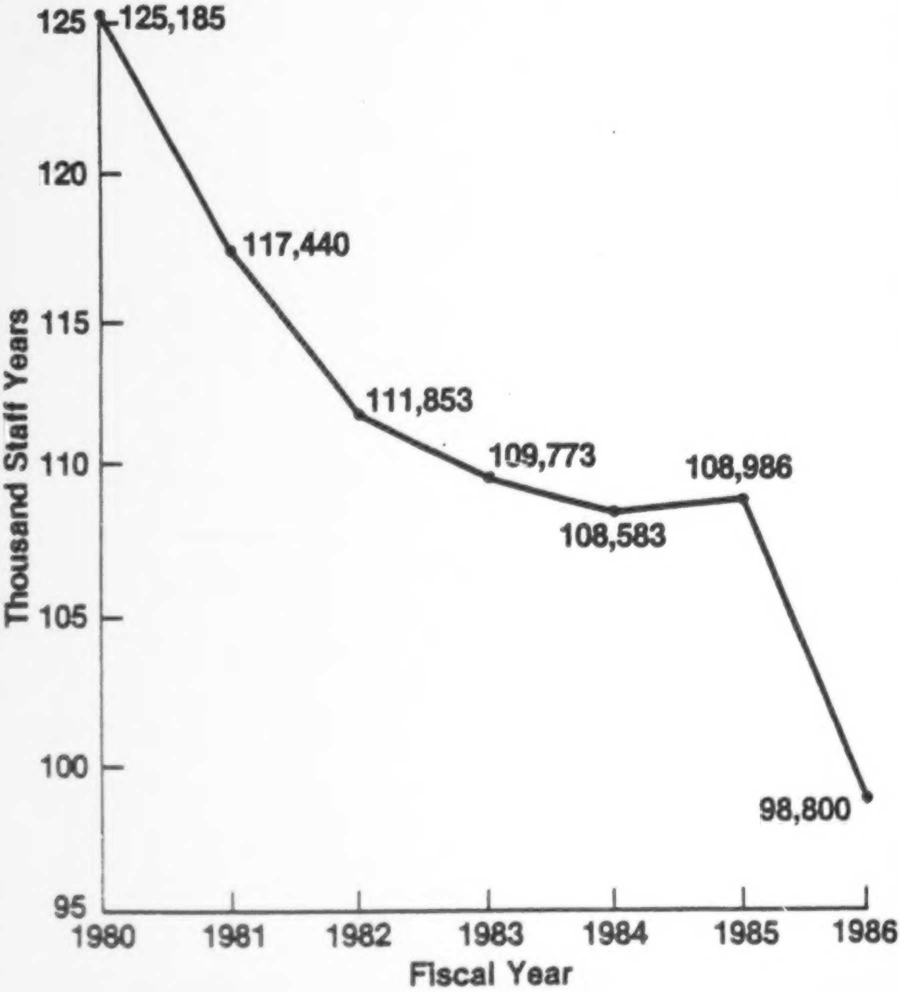
CHART 13

Discretionary Programs

- Conservation Programs
- Forest Service
- Research
- Meat and Poultry Inspection
- REA

CHART 14

USDA Staff Years



Chairman DOMENICI. You must have heard my friend from Florida say that that was a pretty long "brief statement."

Secretary BLOCK. Yes, and that is why I closed out.

Chairman DOMENICI. Mr. Secretary, I am going to proceed with the Senators, and I will try to ask my questions at the end.

So, we will start with Senator Andrews, and let me tell you the list I have—Senators Andrews, Chiles, Boschwitz, Exon, Gorton, Johnston, Kasten.

Senator Andrews.

PIK NOT INCLUDED IN COST ESTIMATES

Senator ANDREWS. Thank you, Mr. Chairman.

Mr. Secretary, in your graphs that you showed us, you showed the costs of the present farm program. Do your cost estimates depend on another PIK caper like we had last year? Was that included in those cost estimates?

Secretary BLOCK. No, it would not; no PIK would be included.

The new farm program that we will be announcing Friday would not envision anything like that.

Senator ANDREWS. But when you talk about the program as is, and the spending under it, are you assuming that the Department of Agriculture is going to come up with another PIK caper, which is one of the most expensive things we have ever seen—and it was not generated from the Congress.

Secretary BLOCK. We are not assuming that, but if we had not done the PIK, the program last year would have cost a lot more than it did.

Senator ANDREWS. Another question on where we are going, in going along with the letter of the law, Mr. Secretary. The Rural Development Policy Act of 1980 gave you as Secretary leadership responsibility for the Federal role in rural development. The reason those water lines and electric lines and the rest have been in the program is to keep the rural areas habitable.

In view of the fact that your 1986 budget submission eliminates virtually all rural development activities, how do you plan to carry out this role, and how do you justify the continuance of the Office of Rural Development Policy?

Secretary BLOCK. I believe that this role of necessity must be picked up more so by the local communities and by the States than it ever has been before, and the Federal Government can provide leadership and we can provide some technical assistance, but we just cannot afford to do as much as we have done in the past and as much as we would like to.

Senator ANDREWS. Mr. Secretary, farmers, as you know, since you are a farmer yourself, are pretty practical people, and they are concerned with getting this deficit down because, as the chairman said, there are two things wrong on the farms, and everybody knows: Prices are too darn low and interest rates are too darn high, and they are both impacted by the deficit. Probably the most important farm bill we could pass is to get this deficit under control.

COMMERCIAL STORAGE OF GRAIN MORE EXPENSIVE

But when farmers sit back on their farm and see what you are doing as Secretary, in refusing to roll over the grain reserve, for instance, you are asking the farmers in my State, in Senator Kassebaum's State, and the other Senators on this committee, to bring their grain in from the grain reserve, and you will put it into commercial storage.

You are going to have to pay 22 cents a bushel more to maintain that grain in commercial storage than you are going to do to maintain it on the farm.

And the farmers say—I was at an open meeting in North Dakota—"OK, Senator. How come, if this administration wants to save money, they are taking the grain out of our bins, and paying a 7-cent-in charge and an extra dime to store it, and all of the rest?" How do you justify it?

Secretary BLOCK. Senator, I do not believe that the right thing to do is to roll this over, then take the new crop in on top of what is already there and build this grain reserve bigger and bigger and bigger.

Senator ANDREWS. Fine, Mr. Secretary, but isn't it a fact that it is going to cost you 22 cents more a bushel to store it for the next year if you move it from farm storage into commercial storage?

Secretary BLOCK. I do not know that that would necessarily be true. I would be prepared to sit down and go through it with you.

Senator ANDREWS. Well, let me review it for you. You pay the commercial warehouseman 10 cents a bushel more than you pay the farmer; you pay him 7 cents to take it into his house that you do not pay the farmer. You pay him 5 cents to take it out of the house, you do not pay the farmer. This is basic arithmetic that farmers are concerned with. And we are out there, trying to tell them, "You have got to get these deficits under control," and they say, "OK, Mark, what is all this damn hooey that these guys in Department of Agriculture are coming up with that is going to increase the cost to the taxpayer, not decrease it?"

Secretary BLOCK. That might be more so true with wheat. It would not probably be the case with corn.

Senator ANDREWS. Well, I am talking about wheat. There are a couple of Senators around here from wheat States.

Finally, Mr. Secretary, if you close out these farmers, you put land on the market. By putting more land on the market, you drive down the price of land in a soft economic condition in the countryside.

Doesn't that then precipitate more demand on credit needs and more panic in the country, just as the refusal of the administration to come out with a forthright and sensible program is causing the suppliers of farmers—fuel suppliers, fertilizer suppliers, herbicide suppliers—to put these distribution co-ops and local entities on a c.o.d. basis. Instead, when you and I used to go in, we would start arranging our loans, and we figured we could pay for this in the fall. Now we have got to pay for it upfront, so we have got even more credit demands.

How do you answer that?

BUDGETARY CHANGES WILL NOT PUT PEOPLE OFF FARMS

Secretary **Block**. Senator, I do not suggest that we put the farmers out of business, and I do not submit to the suggestion that the budgetary changes we are talking about will contribute to that, frankly. I think that agriculture will be healthier with the new farm program we will come forward with Friday, and these budgetary changes here are not going to be putting people off the farm.

The problem on the farm—and I do not think anyone understands them any better than I do—in a lot of ways, have come down upon our backs from forces well beyond the control of the farmer, beyond the control of Secretaries of Agriculture, and in some ways, the Congress and the President.—powerful international forces, the decline of the strength of the value of the dollar, high interest rates, decline in our markets, worldwide recession—and we just find out that that is where we are today. And we need to address this credit the best we can, but on the other side, we need to write sound farm policy that will give us a future in agriculture, and I do not think the future should be the one to decide the policies of the past——

Senator **Andrews**. Well, you are the only farmer who thinks that your policy is going to give us a future in agriculture, or you are one of the damn few ones.

Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Senator Andrews.

Senator Exon.

Senator **Exon**. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. There is a meeting scheduled at 2:30 today, I understand—I guess all of us will be invited to that who are concerned about the crisis facing agriculture today.

Who is going to be invited to that 2:30 meeting?

Secretary **Block**. I do not know. I was just invited to come. I do not know who is going to be there.

Senator **Exon**. You are familiar with the fact that there is a Meese nomination on the floor. It is not for Secretary of Agriculture, but it is somewhat tied in with agricultural problems.

Let me first kind of set the record straight, if I might. Last year, you were here, Mr. Secretary, and among other things you said, "Along with improvements in the farm economic situation, there has been an improvement in the farm credit situation. Improved loan-to-deposit ratios indicate a greater potential for private banks to make farm loans."

You went on to say that, "Stabilization in farm land values after two years of decline also has helped improve borrowing capacity for most farmers."

You also said then, Mr. Secretary, "The farm economy is now emerging from the gloom and the doom that we felt before PIK was announced. We have turned the corner and are ready to face new challenges."

We have turned the corner, all right, into the greatest bankruptcy situation that farmers, and not only farmers and ranchers, but the small businessmen up and down Main Street in the rural sector of this economy.

Now, I simply try and put into context what I think you sincerely believe today—but you were giving us a rose-colored glasses picture a year ago. And certainly, the things that you said a year ago turned out to be exactly what I warned you would be the case, and now we are in a critical situation. Whether you are going to do anything about it or not remains to be seen.

EMERGENCY STEPS TAKEN TO GET CROPS IN GROUND

You are familiar, I guess, with what several of us gave to the majority leader yesterday as a whole series of emergency steps during this next 30 to 45 days to get the crops in the ground, what is absolutely necessary. Are you prepared to go any further here, in front of the Budget Committee today? Could you tell us what you are going to say at the 2:30 meeting—or, are you going to hold fast to the administration's position that you have done all that you are going to do, and nothing more is going to happen?

Secretary BLOCK. Well, Senator, I sincerely believe that it is easy to come in here, and the groups that come to town always come to the Federal Government—they come to you just as they come to me. You are part of this team here that is responsible for managing the Government of this country. And I think that you have to recognize how much we have done—that is a given——

Senator EXON. We will not argue about that. What are we going to do from here on out?

Secretary BLOCK. I think the next thing to do is turn to the banks and suggest to the banks that the program that we have offered is effectively the program they asked for, and it will work. There is $600 million sitting there, ready to be used, and I hope they go in and use it.

Furthermore, if they go in and use it, and they need more money, we have transfer authority, and we can put some more in there. But the burden is on their shoulders now to make that work.

Senator EXON. The burden is on their shoulders to do on loans what you want them to do. Isn't that really what the bottom line is?

Secretary BLOCK. We have gone our route, Senator, and now it is their turn to go theirs.

Senator EXON. Are you going to go any farther this afternoon in this 2:30 meeting today?

Secretary BLOCK. No, not that I am aware of.

Senator EXON. It looks to me like the Meese nomination is in more trouble than some of us thought it was even yesterday.

PRESIDENT VERY CONCERNED ABOUT AGRICULTURAL CRISIS

Let me ask you this question. What does the President of the United States have to say about the agricultural crisis today?

Secretary BLOCK. The President is very concerned about it. We have had a series of meetings at the White House, and the President—within the last 3 weeks, we spent a full Cabinet meeting on the question of the problems in the farm country. He is concerned about it, and he expects us to be looking at the problem, and he expects the plan that was announced just 2 weeks ago to work. He wants it to work, and he wants it to help, and he also wants everyone involved to provide a lift, including the States. And I just want to add this one point. We have a number of States, some represented here, that have a considerable amount of money in their budget—some, as much as a billion dollars—they are thinking about cutting taxes in the States, giving the money back to their taxpayers. That is fine, but that is their decision. That means that they have decided not to spend it on their farmers.

Now, we are spending billions of dollars, and we will spend more as time goes on in all the different programs, but I think it is time the States took a look at carrying part of that burden, too, in those cases where they have extreme stress. And I know the stress is very severe. I know how extreme it is.

Senator EXON. Mr. Chairman, I know my time is up, but let me get this clarified. Other than Cabinet meetings, when was the last time that you as the Secretary of Agriculture sat down, just you and the President of the United States, to discuss the farm problem?

Secretary BLOCK. In January.

Senator EXON. In January?

Secretary BLOCK. Yes.

Senator DOMENICI. Thank you, Senator Exon.

Senator Boschwitz.

BANKS SHOULD CARRY FAIR AMOUNT OF LOAD

Senator BOSCHWITZ. Mr. Secretary, some of the requests that are being made now on the floor by the Senators who are holding up the nomination of Mr. Meese—which is really unrelated—include allowing agricultural banks to write off bad debts over 10 years—which I think is unreasonable—prohibiting the examiners from asking for an increase in the minimum capital of banks that have poor loan portfolios; and modifying FDIC regulations to allow promissory notes to be counted as capital in those banks that are having problems.

It is really debatable, I think, whether or not these proposals—particularly the first two—are responsible.

One other thing that is being asked for is that a cash-flow requirement be set at 100 percent, rather than at 110 percent. I fear that if all farmers receive these guarantees we will face our next crisis down the road. We can even tell you when it is going to be. When farmers come back in next year and want to make another loan at their bank, the banker, rather than having an unsecured debt, will sit there with a 90-percent Government guarantee and his attitude with respect to that farmer sitting across the desk from him will be entirely different.

Suppose we were to say that the farmers who had a cash-flow of 100 percent would be entitled to a guarantee, not at 90 percent, but at 60 percent. Would that be something that you might entertain in order to let some of the responsibility lie with the banks—who, almost recklessly in some instances, gave those loans earlier on? Suppose we lowered the percentage. Would that be something worth considering?

Secretary BLOCK. I would be prepared to look at any suggestion along those lines. In principle, I do agree that it is better if the banking institution carries a fair amount of the load. Then they are going to be much more careful in their lending practices.

LOAN PROGRAM NOT FAVORABLE

Senator BOSCHWITZ. I agree with that. And it is sometimes overlooked that we have indeed put together a program that—though it is not large enough, to be sure, at $600 million—should be utilized by banks. The banks really want us to buy down interest. They want us to bail them out of a series of loans that they made over the years, and I think it is important that we do keep the banks in.

One of the things that has been suggested, Mr. Secretary, is that the CCC prepay a certain part of the loan. They have already prepaid half of the projected deficiency payment. But how would you look at a loan prepayment, let us say, of one-third, in the event that the set-aside were increased by 2 or 3 percent?

Secretary BLOCK. I have heard this program, and I have been approached by some Senators and others with this program, and I have tried to give it a fair review. But in all honesty, I am strongly opposed to this plan, and I am opposed to it for a couple of reasons. First of all, if you just open it up for the mass of farmers that raise these crops that qualify for loans, it would cost us probably in the range of $9 billion in outlays right away, whenever the program went into place.

Senator BOSCHWITZ. Thus, $9 billion would be payable——

Secretary BLOCK. It would be paid back someday.

Senator BOSCHWITZ. I mean, it would be payable in the next fiscal year. We would just be advancing it.

Secretary BLOCK. That is right. But we would pay it out right away this fiscal year, if we have made those kinds of advances.

Senator BOSCHWITZ. But suppose we increase the set-aside by several percentage points so it would be to the advantage of farmers to borrow at the bank rather than borrow at 9⅛ percent in the CCC; would that make that program more palatable?

Secretary BLOCK. Well, I would have to look at what you are talking about there in detail. I had only looked at it from the current point of view. The second big problem with this is that these loan programs are designed to be made at harvest time, to provide for orderly marketing of the crop. They were not designed for a crop planting loan, an operating loan.

If we subvert the whole intention of this plan by using them for operating loans—that means we have used the money up in the spring for operations, and when the fall comes, and the farmer wants to put his crop under loan, he has already spent the money that he is going to get from his crop—I just do not think it is the right way to go. I just think it is a very bad idea to move on this kind of a program.

Senator BOSCHWITZ. While I also like the idea of returning to greater market forces in the agricultural sector, I think the program you have suggested, Mr. Secretary, is quite harsh. Some of us will be presenting you with some options. I am afraid that we would lose many, many of our farmers if, in a relatively short period, 4-year period, we were to reduce the deficiency payment to the loan rate.

I might say that the deficiency payment has also been paid in advance to the extent of 50 percent, and the same argument that you made with respect to the prepayment of the CCC loan could be made with respect to that, and was not. And the CCC loan, of course, would be used for putting in the crop, which would be very helpful to a number of farmers.

I think my time is up.

Chairman DOMENICI. Thank you, Senator Boschwitz.

Senator Chiles.

Senator CHILES. I yield to Senator Johnston.

Chairman DOMENICI. Senator Johnston.

FARMERS MUST MAKE LOANS IN 4 TO 6 WEEKS

Senator JOHNSTON. Thank you, Mr. Chairman.

Mr. Secretary, there has been a lot of talk about what must be done for these operating loans to get the crop in the ground. Now, without reference to whether that is a good idea or not to change the regulations, could you tell us about how much time you would have to do it in terms of when the crop must go in the ground, and when the loans must be made, in terms of percentage? I think in Texas, they are already putting some of the crops in the ground, and some are much later.

Would you give us the schedule on that, roughly?

Secretary BLOCK. Well, it depends on the part of the country, but we had really better have some things going in the next 6 weeks to get the bulk of the midsection of the country planted. In the South, it has to be sooner than that.

Senator JOHNSTON. But the bulk—would you have 6 weeks to act—most of these loans take a couple of weeks to make, don't they?

Secretary BLOCK. No; we do not have that much time. I am saying the farmer needs to be ready to go to the field in 6 weeks, and that means that he needs to have some assurance, or know what he is dealing with, and know he can get the money to go in and put in the crop.

Senator JOHNSTON. So what do we have, maybe 4 weeks for the bulk of the country, would you say?

Secretary BLOCK. Well, 4 weeks, probably.

FARMERS WILL BE SURPRISED WHEN APPLYING FOR LOANS

Senator JOHNSTON. All right. Now, Mr. Secretary, we hear from all over the country and my State, as well, that farmers are going to be surprised when they go in to get their Farmers Home loans—some are not going to be surprised—but as the credit place of last resort, they are going to come in, and they are going to put in their applications, and they are going to find that they cannot qualify, that their cash flow or otherwise is not going to be sufficient to qualify, and so they are not going to be able to get that credit.

Under present policies, would you say that that is a rational fear?

Secretary BLOCK. I think that it is probably an exaggerated fear. Let me tell you what the real problem is. The traditional borrowers from Farmers Home will probably—not all of them, but most of them, will get the credit, because they have been their borrowers. There will be a few casualties, but it will not be excessive at all.

The problem is the land values have plummetted; the lending institutions that traditionally serve this broad mass of farmers have tightened all of their guidelines, and they are a lot tougher in their lending practices, and so they chopped this level of farmers off at a level that puts several of them out on the street who would not ordinarily be there.

They are coming to Farmers Home—and I tell you, the Farmers Home Administration is just inundated with people wanting help, and there is no way we can help all of them. There just is no way. There is not enough manpower, there is not enough resources. We are just going to do the best we can.

But these borrowers that have been forced out because of all these circumstances are the ones that are going to have a tough time.

10 TO 15 PERCENT WILL HAVE TOUGH TIME GETTING LOANS

Senator JOHNSTON. And what percentage is that—what is the volume?

Secretary BLOCK. Well, you hear everything. You hear that 10 or 15 percent are going to have a tough time getting credit. Some would say more, but I would say—I will say—that there will not be that many who will not get it in the end, but they are going to have some very anxious moments. And in the end, I am hopeful that between the Federal Government doing all we can, the lending institutions finally realizing that they are going to have to go the extra mile too, and the local communities helping—and some of them are, and I give them great credit for their efforts—with different kinds of loan committees helping—maybe we can get most of these people in the field. That is what I would hope for.

Senator JOHNSTON. Well, if 10 or 15 percent are going to be coming to Farmers Home, how many of those can you help and how many are not going to be able to get the credit?

Secretary BLOCK. I cannot give you numbers. If you take Louisiana, in your State, there is a very high percentage of farmers who get Farmers Home loans—50 percent. I think that you will do reasonably well there.

I think the places where the biggest problems are going to occur are places like Iowa; maybe Wisconsin to a lesser extent; Nebraska, Senator Exon's State—places like that where the farmers are not traditional Farmers Home borrowers. I think they are going to have the biggest problems.

Senator JOHNSTON. Well, at the end of January, only 126 farmers in Louisiana had been declared eligible for operating loans from Farmers Home, even though last year, 50 percent of the operating loans in Louisiana were from Farmers Home.

So it seems to me, Mr. Secretary, first, that something has got to change basically about these rules, or the percentage of those who are going to go down the drain is larger than is being thought.

That is No. 1. And No. 2, I wonder if it had been thought through about what the consequences are if it is only 10-percent—a 10-percent default level for farmers in this country would first of all absolutely shatter land prices, which would bankrupt the banks, and I think you would find tensquare reverberations going throughout the economy.

Am I overstating that fear?

Secretary BLOCK. No; I think 10 percent in 1 year would be very, very dramatic on the whole economy of rural America. But I would not anticipate that level. I said that 10 or 15 percent are having a tough time, but I think in the end, the percentage that actually are unable to get credit will be much less than that.

Senator JOHNSTON. How much less?

Secretary BLOCK. I would say much less; maybe half that, but I could not tell you exactly. Farmers Home Administration last year was able to provide money to 97 percent of our customers—that is not bad—last year. I do not know what it will be this year. Maybe it will not be quite 97 percent, but I think we will do reasonably well.

Senator JOHNSTON. Thank you, Mr. Chairman.

Chairman DOMENICI. Senator Gorton.

[No response.]

Chairman DOMENICI. Senator Kasten.

FARM CREDIT CRISIS MUST BE DEALT WITH FIRST

Senator KASTEN. Thank you, Mr. Chairman.

Mr. Secretary, your testimony indicates that we do not expect, do not want, and do not suggest that our policies are going to put farmers out of business—I am using your own words—or force farmers off the farm.

As one person who has just come back from 1 week in Wisconsin, I can tell you that what is going on right this minute. We are in fact putting farmers out of business, and good farmers, not marginal farmers. And we also are in fact forcing farmers off the farm.

I think if we are going to make any sense of this whole effort we have got to separate the proposals for the new farm bill. They are going to have to be dealt with. And frankly, I believe that American agriculture and Wisconsin agriculture will be willing to take its fair share. Of the burden of deficit reduction. But we are not going to be able to deal with any of those problems, we are not going to be able to consider the budget or the 1985 farm bill until we get this immediate crisis of the farm credit behind us. And we have got to move.

Now, if you go through the Boren bill, the Kassebaum bill, of which I am a cosponsor, the Abdnor bill, several other bills, most of the provisions can be done administratively. Is that correct—that these are simply administrative decisions that could be taken tomorrow?

Secretary BLOCK. I have not looked at all of them but, basically, that would be true.

Senator KASTEN. The question, then, we have is why do we have to go through this game? I went through it a little bit with David Stockman about 3 weeks ago. He sat exactly where you are sitting, and he said: "We are not going to allow any kind of debt credit restructuring until we get firm commitments on what is going to happen with the new farm bill."

Well, he was not speaking at that point for the administration because the next morning we were able to go forward with the announcement that you made. I think it is a step in the right direction, but from what I learned in Wisconsin, it is not enough. At least, it is not enough for the Wisconsin farmers.

Now, you are correct—only roughly 14 percent of our loans in Wisconsin were with the Farmers Home Administration. So that means that we do not have the kinds of problems that the Senator from Louisiana and other Senators from the Southern and particularly Southeastern States have. The other 86 is in small, independent banks and in the production credit associations.

BANKS SHOULD HAVE A LITTLE MARGIN

It is not just the farmers, though, that are suffering right now. We have got some problems with the small independent banks.

So I would like to ask you, are you prepared now to start to make some changes? Specifically, are you prepared to change this 110 percent to maybe 105 percent or 100 percent, so that people can be adequately covered for their cash flow?

Secretary BLOCK. Let me answer that. That is one suggestion we continue to get, change that 110 percent of cash flow to 100 percent. Everyone may not understand what we are talking about here.

The rule is that if the Federal Government is going to come in and guarantee 90 percent of this loan, it is our Federal Government, and we are all deciding are we willing to do this, to take this kind of step, then we are saying: "Mr. Bank, this is your customer. He really was not ours to begin with, but we are going to reach out and help." We are asking the bankers, the banks, to do something, and we are saying: "Bank, write down his interest rate, or write down his principal, so that that man can get a decent cash flow."

And you are saying let us just require only that he cash flow 100 percent of his debt; let us give him no margin.

But we are saying—and the way the rules are—we are saying give him that 10 percent of margin. And it can be done. It might take a little bit more effort on the part of that bank. They might have to write down just a little bit more in order to make it reach so he has 110 percent and a little margin. But I think it is good that he has a little margin.

Senator KASTEN. Well, Mr. Secretary, that is exactly the point, though. You have got $600 million sitting out there, and because we are pushing the banks on the 90 percent, and we are pushing the farmer and, indirectly, the bank on this 110 percent from the other side, most prudent bankers, particularly the small independent bankers, will not want to take advantage of this program. They will not believe that it is going to help them or their farmers in the long run.

I would like to just make one other point. You are talking about the importance of States, the partnership, and the fact that the States have surpluses. Wisconsin has a surplus. And Wisconsin right now is moving to form some kind of a partnership. One of the things that is being discussed in Wisconsin is coming up with 5 percent, so that we go from the 90-percent Federal guarantee, tack on a 5-percent guarantee from the State. If we could push you to 95-percent, we could then get a 5-percent guarantee from the State, and we could go to 100 percent. But Wisconsin is one State that is willing to start to try to work with you. We have several legislators, both Republicans and Democrats, who are working together.

NEW ZEALAND WOULD FEEL DRAMATIC IMPACT ON THE ECONOMY

I just have one final question, and I see that my time has expired. Mr. Secretary, in the last 10 days, New Zealand, who was one of the major exporters of dairy products and agricultural products into this country, in effect broke an understanding that we had with regard to our base rights and visiting rights of U.S. naval ships.

Are you going to be making an effort within the administration to, No. 1, sell butter, which is in surplus, on the worldwide market? And No. 2, will you work to limit the importation of cassein, which is a milk substitute, coming from New Zealand?

Both these efforts would have a dramatic impact on the economy of New Zealand, and I think would send them the kind of signal or message that this country ought to be sending.

Secretary **Block**. Well, we are prepared to look at any of those because, as you know, we have sold dairy products before, and in fact recently. We will be looking at other possibilities

I think that if we are going to use it as a lever against New Zealand, specifically, or against the EC, I think you need to plan carefully, and decide, and know what you are doing.

We do not have that much surplus butter. We do have a considerable surplus of nonfat dried milk. I understand what you are recommending, and will take it under advisement.

Senator **Kasten**. Mr. Secretary, I am pleased that you will take it. I am hoping that you will not use it as a lever, though; I hope you use it as a stick.

Chairman **Domenici**. Thank you, Senator.

Senator Chiles.

LOW-INTEREST MONEY AVAILABLE IN SOME STATES

Senator **Chiles**. Thank you, Mr. Chairman.

Mr. Secretary, I think Senator Kasten touched on one of the questions I wanted to ask. I heard you say to Senator Exon that you are not going any further at the 2:30 meeting. I heard you also talk about the plan the President announced 2 weeks ago on the loan help. Well, that plan he announced some weeks ago you were not going to do anything else. Now, maybe.

Does that mean we are just going to take this a step at a time, as you are pushed along into this? If that is true, why don't we get on with this thing? The farmers out there need to know something. They need to know where the game is going to end up, so they can make their plans.

Secretary **Block**. Well, I think the recent announcement by the President deserves a chance to work, and I believe that the banks have an obligation to help make it work, and we should see that start to move. And I believe the States can move, and I think it is time they started. Some of them have, and I have to give the States a lot of credit that have gone forward. There are three or four States that have made low-interest money available to farmers.

Senator Chiles. As I look at the budget that has been presented to us, agriculture programs across-the-board, dealing with everything from economic development to the Farmers Home, rural development, National Health Service, migrant education, community price supports, farm credit, crop insurance, soil conservation, REA, all of those come in for about a 35-percent cut—$8,287 million so about a 35-percent cut.

In your role as the Secretary of Agriculture, I know one of the questions you were asked by a number of us prior to your confirmation was, were you going to be the voice on the Cabinet for rural America. That, traditionally, has been the job of the Secretary of Agriculture. And I think a number of us have been chapped at times that Secretaries of Agriculture under Democratic administrations, always yielded to the State Department or somebody else, and did not end up being the spokesman for agriculture.

Do you really think you are the spokesman now for rural America, with the rural programs being asked to take 35 percent cuts in 1 year?

Secretary Block. I believe that is my obligation, and I believe I serve in that capacity appropriately. As was pointed out here by, maybe it was Senator Boschwitz—I have forgotten—the best farm program we can have is a balanced Federal budget, and agriculture can make a contribution to this, and is prepared to do it. I have been told by farmers that they are prepared to do it, and I believe that the time is right for a program change, because I might point out that all of the problems we face today in agriculture have occurred under the current farm programs, not new ones. And it is time we looked at some new programs, that we took away some of the incentives that have been historically provided in laws that have thrust and forced excess investment into agriculture at the expense of the family farmers.

Senator Chiles. I listened with interest, and I had to smile a little when I heard you describe the worldwide forces out there, working against agriculture. During the campaign of 1980 and 1981, it was all "Carter's fault," and all the "Democrats' fault." Now it is worldwide forces. Well, isn't that something. It becomes worldwide forces where, before, it was always those crazy policies of the prior administration. Those worldwide forces and those policies, for 4 years, Mr. Secretary, have been part of your program. You have shown us the charts about how much we added in the last 4 years. It was not a half-step like before; it was a giant step.

REFORM WILL NOT TAKE PLACE OVERNIGHT

Now you are going to reform. You are going to go cold turkey. You are not going to take another drink. And you are not going to allow the farmers to take another drink.

Do you think we can go cold turkey in one year? We are cutting every program across-the-board, and we are talking about doing it cold turkey. Is that fair to the farmer, to whom we have been feeding these things over all these years, to say, "Now, boom, it is cold turkey time"?

Secretary **Block**. No. I think it would be totally unfair to the American farmer to make these adjustments in one fell swoop. Even with REA, we are looking to 1990 before we have made the full withdrawal of the Federal Government from that program. We are looking to phasing all these programs, and when the farm program is officially and formally announced on Friday, it will be clear that we are talking about phasing down target prices over a period of 5 years; we are not doing it overnight. We are talking about opening up production over a period of 3 years, not doing it overnight.

All of these programs will be phased to give agriculture a chance to adjust accordingly, and I believe that that is the way it should be.

Certainly, we are concerned about this industry, and we want to give it the correct kind of support during the adjustment phase.

Senator **Chiles**. Mr. Chairman, we have a Secretary of Agriculture that is ready to cut all rural programs 35 percent. We have a Secretary of Defense who will not cut any programs and wants to add about 7 percent. Is there some way we could transfuse them and achieve some balanced restraint? We could end up with a pretty good match.

Chairman **Domenici**. You think that might work? I think they would have a war.

Senator Kassebaum.

WRITING DOWN INTEREST WILL BE USED MORE

Senator **Kassebaum**. Mr. Secretary, I think Senator Kasten put it very well when he said that you have two different levels of problems. One is the short-term, of which the emergency credit is, I think, a deep concern, and the other is the longer approach in the reauthorization of the farm bill.

And I think you made a very interesting point, and it is one with which I would agree, that essentially, the structure that we have had in our past farm policies has given us a cheap food policy. But I do not think we can move to the significant revamping that you, and perhaps the rest of us, would like to see if we lose the confidence and we lose the support that we have to have in the farm economy right now.

And I think the figures in Kansas are telling, because out of 10,000 to 12,000 farms that gross $100,000 in farm sales in Kansas, it is projected that about 3,000 of those farmers will go out this year.

Now, these are not irresponsible, marginal farmers. And you know those figures just as well as anyone. And obviously, to be responsible, we are not going to be able to design legislation or administrative direction which is going to help everybody; there are going to be farmers that go under.

But I think that we have to explore every avenue. Now, the administration in a recent proposal that was made in changing and being able to write down interest is something that everyone says is going to be of benefit. I think it will be of some help. But I would like to ask you why is it not being used more?

Secretary **Block**. I think it will be used more, but I also believe that a lot of the banks are looking to see if there is a better deal coming from Washington.

Senator **Kassebaum**. Well, I am beginning to hear this more and more, but I do not think we can blame the bankers for the problems that we have right now.

CONFUSION EXISTS IN LOAN PROGRAM REQUIREMENTS

I would like to explore with you for just a moment the ability to show the 100 percent cash flow projection. What is that based on, the 100 percent—or 110 percent, as is required——

Secretary **Block**. Well, you just figure up the operation of the business——

Senator **Kassebaum**. Is it your 1986 projection?

Secretary **Block**. No, it would be 1985, because we are talking about money for 1985.

Senator **Kassebaum**. Yes. I mean, your farm crop on 1985.

Secretary **Block**. The 1985 crop, and they would be entitled to all of the program benefits that are currently in place, the price support loans, the deficiency payments and everything, because they could be in the program.

Senator **Kassebaum**. Well, perhaps one problem is some confusion about the requirements, because I was called by a banker in Kansas this morning who said that he had had two farmers which he had recommended that they be able to participate in the guaranteed loan program, turned down by Farmers Home because they did not meet the requirement of 110 percent, and they were predicating it on the past 3 years' farm income of each of those farmers.

Secretary **Block**. I do not know. It really, appropriately should be on this year's——

Senator **Kassebaum**. The regs do say the 1985 projected cash flow?

Secretary **Block**. Yes, they should be this year's prospects, because that is what we are talking about. That is when the loans are made.

Senator **Kassebaum**. Well, perhaps this indicates some of the confusion about why it is not being used. I mean, if we cannot get out there with some certainty and lay this out and assist those that could be assisted by it, then we have missed an opportunity to help.

Secretary **Block**. That is true.

Senator **Kassebaum**. So this is a question that, perhaps, you can clarify?

Secretary **Block**. It is important, if there is confusion, we need to clarify it, and we will work to do that, because it is important that they get the job done and understand what is being done and the way it is supposed to be done.

Senator **Kassebaum**. And you feel strongly at this point that there should be no change made in the administration's proposal?

Secretary **Block**. That is right. I do not believe change is necessary. I believe it will work.

ALLOW SOME LATITUDE IN DETERMINING NONPERFORMING LOANS

Senator **Kassebaum**. If I could just touch on one other facet of it which I think is enormously important. Again, there has been a commission created. The regulatory agencies are participants, you are a participant, in trying to allow some latitude in determining nonperforming loans, the ability to relax some of the regulators' discretion there. But it is my understanding again that this has not really gotten off the ground.

Isn't time of the essence, and if there can be some effort made to allow for greater forebearance, that this should be done, again, with a strong direction on the part of the administration, some keen understanding on the part of all involved? I think this would be an enormous help, if we could cut through some of the redtape that now exists.

Secretary **Block**. I met with this coordinating group last week including FDIC and the Comptroller of the Currency representatives, and the representatives of Mr. Volcker's office—I had lunch with him last week—all the time emphasizing forebearance, working together, ensuring that farmers have every consideration—consideration in how they write down the value of land, and give it some time rather than just precipitously. And I believe it is going to be helpful to farmers. It takes a while to percolate this down through their systems, though, I will have to tell you that, I am afraid.

Senator **Kassebaum**. Well, my time has run out. But I thought I understood from your comments that that meeting had not really resolved very much. So I hope you keep pushing.

Secretary **Block**. OK.

Chairman **Domenici**. Thank you, Senator.

Let me inquire. As I said at the opening, for the Senators who have come late, his schedule has been filled, and we have the Secretary of the Treasury at 2:30. Secretary Block agreed to come at 12:30 to accommodate us.

Might I inquire, Mr. Secretary. Our next witness does come at 2:30, not at 2 o'clock, when you were scheduled to leave. In order to accommodate—I gather there are four Senators who have not inquired—can you spend 20 minutes with us, which is 2:15?

Secretary **Block**. Oh, I would be happy to, Mr. Chairman.

Chairman **Domenici**. All right. Let us proceed, then, so that we will get everybody in.

Might I proceed with Senator Grassley, who has been here since the beginning, and then we will go to Senateor Metzenbaum and Senator Riegle in order, and we will be sure we cover both of you.

Go ahead, Senator Grassley.

Senator **Grassley**. Thank you, Mr. Chairman.

Before I visit with the Secretary of Agriculture, I would like to remind my colleagues on the committee, as we are using the term "freeze" more this year than ever before in our tenure on the committee, we have frozen for the year we are in target prices for farm programs—we did that last year in the mini farm bill that we passed. Target prices on corn, which would have gone up, I think, to $3.15, were frozen at $3.03 by the Congress.

So I hope that already, we understand that agriculture has contributed something to this overall budget program, and as we go on to talk about the freeze in the next several weeks, across the board, we will realize that there has already been a precedent set for that.

PROGRAM NEEDS STRONG PUSH FROM ADMINISTRATION

Mr. Secretary, from my standpoint, I am not here to bad mouth anything that you have already done. I think that a program announced by you 2 weeks ago is very beneficial, if it is carried out in spirit the way it was intended to do. I said that also, though, about the program the President announced in September, and I think there were things that stood in the way of it working; those changes made now so that it will work.

But I think the extent to which this program will do what you say it will do is very much dependent upon your leadership and the President's leadership, to always talk and be out there with the bankers, saying that they ought to be involved, particularly reminding them of their commitment, that when they said that the program would not work because of the writedown on loan that they could not afford, that now they have the writedown on interest, that there was a genuine feeling out there conveyed to us that if the program were changed, they would cooperate.

And I do not know if there is the reluctance out there that you say that there is, and evidence from various bankers that maybe they are not going to cooperate. I guess I would feel that you ought to get the President involved in jawboning the bankers to make this program work—again, in the spirit in which they complained about it not being workable prior to 2 weeks ago when you announced the interest writedown. The assumption is that they ought to be cooperating now. We ought to be monitoring the extent to which they are cooperating. To the extent to which they are not, we ought to be using all the power of persuasion from Agriculture, from the White House, to see that it does work.

I would accept that the Federal Government is not the only solution to this problem. I disagree with you, though, that what we have done is enough. And I am going to be back, as I told you before, trying to get more done in the next couple of weeks.

But the extent to which you do accept the premise that the Federal Government has done all they should, and it is now with the States and the banks to do it, then I think we owe it to the farmers, you as the voice of agriculture, the President as the person who announced the program originally, over Stockman's objection in September and recently, 2 weeks ago, to really get in there and pitch with the bankers to cooperate.

I guess my first question to you would be does that sound sensible, and if it sounds sensible, are you going to urge the President to do that?

Secretary **Block**. I agree with what you are recommending, and I think it is important to have a strong push from the administration to get action here, and I will be talking to the President about it, and we will see what we can do.

Senator **Grassley**. Would it sound too far out to get representatives of the banking industry, particularly agricultural lending, into the White House for conferences on how this ought to work—maybe even to the extent that it would be more than just a jawboning session. It might be a session where some of the questions that Mrs. Kassebaum brought up, as an example, would be responded to, and it could actually be a working session to see that the program will work.

Secretary **Block**. I cannot commit to that, because the list of those wanting to meet with the President, or indeed maybe need to meet with the President, is a long one. But I will commit to putting a strong message to the bankers and trying to work with the President to get that out in a way that they clearly understand.

And I guess I want to say that I think there is a big obligation here on the part of everyone, as you suggest, to try to cooperatively do all we can, and I am optimistic the bankers will help and will make this thing work in the end.

STRONG DOLLAR IS PART OF PROBLEM

Senator **Grassley**. I would like to refer in my next question to an article that was written February 4 in the Washington Times, by Warren Brooks, on "Farm Subsidies Targeted" in which he responds to the fact that maybe the high cost of farm programs are not just related to the position of the administration; that we have had too high target prices and too high loan prices, that bumper crops are part of the problem, and more importantly, the strong dollar is very much a part of the problem.

I had four paragraphs I was going to quote, but I do not want to take the time to do that from my colleagues who want to also ask you questions before you leave. But I do have these two questions I would like to have you respond to, if you are acquainted with the article, so I do not have to quote.

Since the strong dollar increases the cost of the Farm Program to the Government, have you done any calculations of what degree that might be the case? Many economists would agree that the strong dollar contributes greatly to the increased cost of farm programs. That is my first question.

Second, to whatever degree the strong dollar contributes does it really rise under those circumstances—if, in fact, you agree that that is a cause—to reduce farm supports, to reduce the cost to the Government, if the farm supports are not the reason for the costs in the first place, and really, the strong dollar might be?

Secretary **Block**. First of all, the strength of the dollar, we feel, cost us some $4 to $6 billion in exports. It was very costly to us. And we have done this calculation, and there is no question about it, that some adjustment in that would be one of the big changes that could be helpful to us.

The second part of your question about is it appropriate to lower support levels or change farm programs to address this—I think that is what your question is——

Senator **Grassley**. If, in fact, the cause is the strong dollar.

Secretary **Block**. If it is the strong dollar. I think it is imperative that we make this adjustment in support levels. Otherwise, we are just going to forfeit these markets to other countries, and we are just going to see our agricultural industry shrivel up. And the little towns, I know it is tough out there, but I will tell you, if we do not have agriculture in business it is going to be worse for all of the agribusiness people, and I think we must keep the industry in business, even though it is tough while we do it.

I think the dollar relationship can change, and I hope as suggested here by addressing the deficit, that it will help make a change, and it will help bring the interest rates down.

INCOME SHOULD COME FROM THE MARKETPLACE NOT THE GOVERNMENT

Senator GRASSLEY. Well, can't you address that problem just by reducing the loan rate and not reducing the target price? That way, you are making us more competitive in international trade, but you are cutting into the profitability of agriculture and the protection of agriculture.

Secretary BLOCK. I agree with you, you can do it that way, but as long as you keep that target price there, this encourages more land into production, and they will plow up fragile lands, as we have done before, and farmers become increasingly more dependent on government. I do not think we want to move them away from government in a way that is harsh, but over a period of time, we need to give farmers the kind of dignity that they deserve where they are getting their income out of the marketplace and not from the Government.

Chairman DOMENICI. Your time is up, Senator.

Senator Metzenbaum.

TOTAL FARM INCOME FOR TAX PURPOSES IS NEGATIVE

Senator METZENBAUM. Mr. Secretary, I want to change the direction a little bit, because as I see it, we have to talk both about money that goes out to help farmers and the money that does not come in by reason of farming.

You had said at one point, "This country can no longer afford large, explosive, open-ended budget expenditures or farm price supports."

What concerns me, Mr. Secretary, is the fact that farms are used as tax shelters, that do not contribute anything to the economy. As a matter of fact, according to the President's own report, the 1984 Economic Report of the President, it was stated that losses from farm operations reduced taxes on other incomes by more than the total Federal tax revenue from farm profits, implying that total farm income for tax purposes is negative.

And the Dean of—or, at least, I am told he is the Dean—of American Agricultural Economists, Mr. Harold Breimeyer—is he a well-known authority in this field?

Secretary BLOCK. I do not know if he is a dean, but he is known.

Senator METZENBAUM. All right. He says, "Let's be honest. There is no chance of preserving family farming if tax rules are not changed. There is no point in even trying unless the tax matter is addressed and corrected."

I do not want to do anything to the family farmer, but I believe that this idea of using farms for tax shelters should be brought to a halt.

Now, Senator Abdnor and Senator Boschwitz and I introduced a bill, S. 244, which would limit the amount of deduction that any farm could take to approximately $23,600 that could be sheltered from off-farm income. That measure, if enacted, would pick up almost $3 billion for the years 1985 to 1987. Can we have your support of that legislative proposal?

Secretary **Block**. I cannot speak specifically to that bill, but I will tell you, Senator, that I am firmly and strongly in favor of tax reform that gets the Government out of the business of encouraging investment in agriculture that really is not economic but rather is based on tax considerations.

CLOSE LOOPHOLE OF USING FARMS AS A TAX SHELTER

Senator **Metzenbaum**. Mr. Secretary, let me point out to you, I appreciate your answer, and yet it does not suffice. We had Mr. Regan here when he was Secretary of the Treasury, and he talked about generalities. We live in a world of realities. This Budget Committee has to go to a markup. We have got to find some income, or we have got to find some way to cut off some expenditures. And $3 billion could help bail out the small farmer. I am not saying it would solve the problem. But the President and the administration say we have got to do things, and they are sort of generalities.

You are the Secretary of Agriculture. Senator Abdnor has a bill that Senator Boschwitz and I cosponsored. If you are not for that bill, then what bill are you for, because all we can get at the moment is generalities, and we want something specific to close the tax loophole of using farms as a tax shelter.

Secretary **Block**. Senator, I will look at that and study it in specific terms. The President's tax reform program probably does much of what you are talking about, also, and maybe almost exactly what you are recommending; I do not know.

Senator **Metzenbaum**. You just said something that I had not heard before. What is the President's tax reform proposal? I have not seen it. Is there a bill?

Secretary **Block**. Well, it is Treasury's proposal.

Senator **Metzenbaum**. That is a different story. We know what the Treasury's proposal is. But 535 members of the Congress are trying to find out where the President is. So, if you know where the President is, tell Senator Domenici, and he will share it with me.

Chairman **Domenici**. I know where he is.

Senator **Metzenbaum**. You know where he is?

Chairman **Domenici**. Yes, he is down the street there. [Laughter.]

Senator **Metzenbaum**. That is about the case. He is down the street. And that is about where we are on tax loopholes. You never can find where they are, and you never can find anybody willing to close this particular one. It is always the other guy's that you ought to close.

Mr. Secretary, I would appreciate it if, within a week, you could tell me how the Agriculture Department would propose to close the tax loophole in connection with farm tax shelters—if not this bill, what bill we can have your support on. We will introduce it.

Secretary **Block**. A legislative report is being prepared in USDA on S. 244. I favor this legislation although I cannot speak for the administration. The bill attempts to curb tax-motivated investment in agriculture by limiting the amount of farm loss that could be used to shelter income from other sources. Tax shelters in both the farm and nonfarm sectors are a growing problem. We will prepare a report, because we want to close those loopholes.

Senator METZENBAUM. Thank you, Mr. Secretary.

Chairman DOMENICI. Thank you very much, Senator.

While you are doing that, would you please give us your estimate on how much it will lower the land values so we will know how many loans we will have to make next year as well?

I support what Senator Metzenbaum is talking about, but tax loopholes and land values are so tied together. Land values are going to go down, and we will be in here with some more loan guarantees. But maybe the $3 billion could pay the guarantees.

Senator METZENBAUM. Well, it is a fact that investors bid tax benefits into the price of the land they buy.

Chairman DOMENICI. No question about it.

TAX POLICY ARTIFICIALLY BOOSTS LAND PRICES

Senator METZENBAUM. That is why tax policy artificially boosts land prices. And frankly, Mr. Chairman, I cannot believe that you are saying here that you want to see land values pushed up artificially——

Chairman DOMENICI. No; I did not say that. I was not being at all facetious. I was just saying please also tell us what impact it will have on land values. I have a document which illustrates what happened to land values since 1950, and it is incredible—flat through 1973, and then 200 percent in about 7 years. And probably the tax loophole you are speaking of has something to do with it. It should not be that high; therefore, the farmers borrowed too much money, and they sold land, too—some, to make money, some, perhaps, for shelters. But that happened, and that is why we are here, part of the reason for the crisis in the mid-five States. Land values were part of that portfolio that they borrowed on. That line there—can you see it, Senator Metzenbaum?

Senator METZENBAUM. Yes; I can. I see it very well. Is it the red one or the black one?

Chairman DOMENICI. It is the black line, if you can imagine that. That is what it looks like.

Senator METZENBAUM. Well, it is keeping young family farmers from being able to go into the market, from being able to get into the farming business, and it is making it possible for agribusiness to gobble up all the small farms in this country, which I do not think is healthy.

Chairman DOMENICI. Senator, I think you made a very good point.

Senator Riegle.

ADMINISTRATION SPEAKING WITH FORKED TONGUE ON AGRICULTURE

Senator RIEGLE. Thank you, Mr. Chairman.

Mr. Secretary, I think the administration is really speaking with a forked tongue on agriculture, and I think you ought to put a stop to it. You have some responsibility.

David Stockman has come before this committee, and basically, he blames most of the agricultural problems on the farmers themselves, and he has been quite blunt and quite outspoken about it, and was into an exchange with Senator Kasten here in this committee.

And you basically are taking a different approach. You sort of say it is external forces, and you are putting the responsibility somewhere else. I do not know how to reconcile these two views, except that it strikes me that there not only is a difference of opinion, but it seems to me that there is a kind of deception here being practiced, whether it is your intention or not, when one major spokesman for the administration comes in here saying one thing, and you come in saying something else.

I do not think it is sufficient to say, in response to the question by Senator Grassley as to whether or not the President could meet with a group of farmers and farm leaders to just kind of give a weak response to that. I think you ought to stand up and ask that that be done. If you cannot get a group of farmers in to see the President, I think you ought to consider maybe giving up the job yourself and let somebody else take the job who can get some farmers in the door for a serious meeting. And I am talking about sitting there for a period of whatever time it takes to really convey a full knowledge of what is going on in terms of the dimensions of this problem.

CREDIT PROBLEM SPREADING BEYOND FARMING

This morning in the Banking Committee, we had the Chairman of the Federal Reserve Board, Paul Volcker, there. And I asked him in the course of the cross-examination about the dimensions of the farm credit problem in terms of banks, out throughout the country, particularly in the intensive agricultural regions and what is going to happen there in terms of the failure rates that we are seeing. And as you may know, the number of problem banks that are in farm areas is going up at an astronomic rate over the last 3 years, and there is no end in sight And he was frank to admit that if this continues, it is not going to just be farmers who are in trouble who are not going to be able to get credit, but if these banks fail, and if you have a cascade of these failures throughout the agricultural regions of the country, nobody is going to get credit. I mean, everybody else who relies on those banks, who may not be directly in farming but indirectly in it, or in those communities, are going to find that they are going to have a credit problem and a credit availability problem as well.

So it seems to me that this problem is spreading out from farming, way beyond farming. And I think the thing that you have to face here—I do not think it is enough to just be put out there as sort of the battering ram on this issue for the administration, when there are no answers in sight. It was one thing to have the PIK Program before the election and shell out over $1 billion, in effect, to try to offer sort of a temporary remedy prior to the time there was an election, and then, when the election is over, suddenly you are talking about farmers leaving farming in dignity. It sounds to me like what you are really talking about is sort of a decent burial, if that can be afforded, because of the numbers of people that are going out of business, including your own business partner.

And when I read about what has been going on here, I do not know whether these were tax shelter arrangements or not, and I do not know John Curry. You obviously know John Curry. You have been involved in these farm relationships with a whole series of initiatives. Now the relationship has been severed, according to an article in the recent news magazine that I have in front of me. But apparently, your portion of the debt in that agriculture partnership is $1.2 million. And apparently, there are not sufficient assets to respond to that, and that is why, apparently, that partnership has been dissolved, and apparently, even in your own immediate farming complex, you are cited here as having a debt on those assets approximating $4 million. That sounds like a pretty hefty debt to have to manage.

So it seems to me that to continue to dance around the problem—I mean, you are experiencing it yourself in your own family farming operations; you have had to sever your business partnership because that is in deep trouble—we are finding this problem all over the country; farm groups and farm individuals, numbering 10,000 and 20,000 in a group are meeting in State capitals across the country, asking for action. You have got a bipartisan group of Senators holding up the Meese nomination at the present time on the floor because they are not getting any straight answers on the farm issue. And I have not heard you say anything today that indicates that anything is going to happen on this problem any time soon, including, apparently, not even a meeting with the President.

So where do we go from here? What do I say to farmers in Michigan, who are in deep difficulty and are finding right now that they are facing a prospect of not being able to plant this season? What do we say to them and other farmers across the country?

POWERFUL COOPERATIVE EFFORT NEEDED BY EVERYONE

Secretary **Block**. Senator, let us start back in the beginning. This problem that we are looking at here—the first question is how did it come about, and who is responsible. Well, I think everyone knows some farmers made some mistakes. The Government made some very serious mistakes and has over a period of years, as I pointed out in my testimony, by providing a lot of incentives to get money invested into agriculture that has ended up competing with the family farm. Even as Senator Metzenbaum points out, the tax laws have encouraged competition that was really unneeded, so Government can share a lot of the blame. And then, of course, the external forces that I spoke about have come from all directions.

And there is no question about it, American agriculture is in a powerful amount of hurt right now. We know that. And there is just no one arguing the point.

The point is that maybe there is a difference of opinion as to what does the Federal Government do, what is our role, and how far do we reach. As I spoke to earlier today, in 6 months between October 1 and April 1, we will put out $15 billion in loans and direct grants or subsidies to farmers, and it will help a lot. And people in here can come to me and you, and others can say, "But it did not solve all the problems."

I know it is not going to solve all the problems, and I know that we could do more. It is debateable whether we should do more. But you sometimes have to sit down and say, "Maybe this is how much we should do for now," because just 2 weeks ago we announced these adjustments in the program; we hope they will work. We are asking the banks to help make them work and everything. Let us hope they do work, and let us hope they are a real help. But you have to sit down and sometimes say, all right—and you are part of this Government here, too, just as I am, trying to serve the people of this country—and you say that this is what we have done, and maybe it is the right thing. Now it is time for the States to help a little bit, and the banks, and everyone to reach out and do a little more.

It is going to take a powerful cooperative effort on the part of everyone to get as many farmers through this spring planting season as possible. And the Federal Government, no matter what we do, we cannot solve all the problems, nor can the States, nor can the banks. Collectively, we can do quite a bit.

And you bring up my partner and all of what you read about it—half true, half fiction. But the fact is, there is no one who understands the problems in agriculturebetter than I do. I lived the ups and downs. I lived the years of the seventies, when everyone talked about feeding the world and land values soared. Now land values have gone down. Everything I have in this world is invested in agriculture—everything—land, buildings, equipment, livestock. My family, raised on the farm, my son on the farm, my father on the farm. And I live and die with the pains of this industry.

FARM PROGRAM BELIEVED TO BE CONSISTENT AND EQUITABLE

But I do believe that the short-term problem of addressing the debt must be handled as best we can, to try to be fair. We will have some differences of how far we reach. No. 2, in the best long-term interest of agriculture, we need to try to write some long-range policies that can help avoid these kinds of problems in the future. And I believe that the program that will be coming forward on Friday can move in that direction.

I do not pretend to say that the farm program that I will be bringing forward on Friday is exactly right. We think it is right, we think it is put together right, we believe it is consistent, we believe it is equitable.

But we are also prepared to work with the Congress, and we know there will be some adjustments made.

There are two things I would like to state that I would like that program to have in it. No. 1, I want to preserve the direction of moving Government away from agriculture so that the farmers can be more self-reliant and dependent on the marketplace, rather than the Government. That is principle No. 1.

Principle No. 2, I believe that we need to have some finite cost control so that we do not let this get away from us, like it has before.

Those are two important principles, and beyond that, we will try to hold the line on the costs and so forth.

FARMERS NEED PRESIDENT'S DIRECT ATTENTION

Senator **Riegle**. Well, I will just respond by saying the administration budget which you helped formulate is proposing to cut agricultural programs by 35 percent at the time that we have got the worst farm crisis that we have had in this country since the Great Depression. And I can appreciate the fact that you are fully invested in farming. Every night on television, the people of this country are seeing farms at auction, seeing families far worse off than yours, men in their 50's and 60's crying openly, because their farms are being auctioned off at maybe 10 cents on the dollar in terms of the equipment and a whole life's work, and so forth and so on.

So it seems to me we have got so many people in so far worse straits, and they need help now, and they need to have at a minimum the President pay direct attention to this issue. And you have a responsibility to get those folks in the door. That is the job that you carry. And if you cannot get that job done, then I think you have to start squawking more about it, or somebody else has to step up and do it, because these people are relying on you to sort of carry the ball, and I do not see it happening. I do not see enough being done, and I do not see the sense of urgency that I think it requires.

Chairman **Domenici**. The Senator's time has expired.

Mr. Secretary, I have just a few questions, and then Senator Sasser has some—I have not asked any yet, Senator Sasser.

First, I want to tell you, Mr. Secretary, I look out there at you, and you look pretty good. You look a little tired and sleepy, but basically, I think you are holding up fine.

I am reminded, as I say that to you, of an old man I met who was leaving the U.S. House where he had been for 38 years, and 19 consecutive victories. And somebody asked him for words of wisdom. They said, "How did you stay here so long and get elected 19 times?"

He smiled and said, "It was easy. I beat up on the Secretary of Agriculture every 2 years."

So basically, you know you have got a tough job, and we have got a tough problem here.

I am very sorry that we spent all of your time on the current problem. I suspected that that would be the case. I do think it served a purpose, however, for you. You have before us long-term reforms that are truly before this Budget Committee. We have all talked about across-the-board savings and everybody sacrifice.

If I read you right, you said you are sending yours up, and you are willing to talk about it, but you are not sure it is perfect. I read that to mean that as we look at it, there is room for some compromise; is that correct? I am not speaking of the bailout bill, but I am talking about the long-term policy.

Secretary **Block**. There has never been a bill sent up that did not get some change.

AGRICULTURE IN DEBT FOR $200 BILLION

Chairman Domenici. Now, second, let me ask how many loans exist on farms in the United States, as of some period that you would know—6 months ago, 3 months ago, 1 year ago. How many hundreds of thousands; do you know?

Secretary Block. We have more than 200 billion dollars' worth of debt in agriculture now. The loans are made by the farm credit system, the land banks and the PCA's, the banking institutions, the insurance companies, and the Farmers Home Administration.

Chairman Domenici. But you do not know how many farms are secured by that—2 million, 150,000, or what number—does anybody know?

Secretary Block. Farmers Home Administration has 270,000 borrowers. There are probably 700,000 borrowers.

Chairman Domenici. How many mortgages have been foreclosed in the last 2 or 3 years; do you have a number?

Secretary Block. We have lost less than 3 percent of Farmers Home borrowers that are our responsibility.

Chairman Domenici. And Farmers Home borrowers are historically the poorest credit risk?

Secretary Block. Yes, sir.

Chairman Domenici. And that is 3 percent over what period of time?

Secretary Block. Last year, 3 percent last year; somewhere in that range the year before, or maybe a little less.

Chairman Domenici. I do not mean to say that I am against doing something. I am certainly against doing something to change this policy to one that is long term. I cannot see how the farmers want the same policy for the next 5 or 6 years in terms of loan guarantees and target prices and direct payments. That is the sort of problem that got them where they are at, and I do not know why they would want it forever.

But I think there have been 33,000 miners—uranium, copper, potash—out in the West, 33,000 who do not have jobs because of the strong dollar and the change in international markets in the last 3 years. Perhaps, in my State, that is 8,500.

Do you think 33,000 farmers have been put out of work in the last 3 years because of foreclosures?

Secretary Block. Not because of foreclosures, but we have had that many leave the land probably in the last 3 years.

Chairman Domenici. I only state that because while I am for helping, I understand that there is some limit to what we can do. And clearly, I am hopeful that the committee is serious in their individual capacity and on other committees working on the loan guarantee aspects, but I hope they are also serious about changing the policy somewhat. I think they are.

LOAN BAIL OUT PROGRAM PUT TOGETHER BY BANKING INDUSTRY

Now, let me ask you one more question. Where did the loan bailout program, for lack of a better word, institutional stabilization program that you now have promoted in behalf of the President—where did you get the facts that back it up, and who suggested the program?

Did the bankers from the affected areas ask for the program?

Secretary **Block**. The program was originally announced last fall. It was put together in coordination and conjunction and in agreement with the banking industry, and they felt that it would work. At the time, they got up in my Department, as I announced the program, and said it is going to work, it is going to help, and then 2 or 3 months later, we found that they had decided maybe it was not exactly what they wanted, and they wanted change.

And, true, we resisted change, and then finally we came ahead with the change there.

Chairman **Domenici**. And who suggested the change that they made?

Secretary **Block**. The banking institutions wanted the change. All right. We have made the change, and I think it is time to make it work.

Chairman **Domenici**. Where were the banking institutions from—Iowa, Nebraska, Kansas—the most seriously affected States?

Secretary **Block**. Well, we dealt primarily with the independent American bankers and the farm credit system, and their representatives do come from that region in the United States, yes, sir.

Chairman **Domenici**. And so the interest writedown and the other parts of that that you discussed with all the Senators from time to time, that was part of their formula?

Secretary **Block**. It is basically their recommendation.

Chairman **Domenici**. Now, do I understand correctly it is your best information that it is not being used?

Secretary **Block**. No, I am not so sure that is true. I believe that it will be used, now that—you keep hearing that there is still this reluctance out there. It comes from some of the members here. But I really believe that it is going to be used, but it is possible yet that some banks are waiting to see if there is going to be a better deal. But I think it will be used; I think they will use it.

Chairman **Domenici**. It is my recollection, seeing that list and hearing the discussion with your credit man and yourself and others, that literally hundreds of people from various agencies of the Government—Federal Deposit Insurance people, Paul Volcker's bank, national bank—they are all out there in the field. Who are they talking to? Are they working with these banks?

Secretary **Block**. They are working with the banks, and they have been asked to exercise forebearance. In the case of the Federal Reserve, Chairman Volcker told me that when they classify a farm loan, the person on the spot at the bank recommends that it be classified, but it cannot be classified until it is sent on up to his superior to make the final judgment determination. It is a double check to be sure that the farmer is being treated as fairly as possible.

NUMBER OF LOANS IN TROUBLE IS A BALLPARK GUESS

Chairman **Domenici**. One last question. And I think all of us would like to know—maybe some Senators such as Senator Exon might know the answer, but I do not—where could we get information, Senator, on just how many loans in the country are in trouble and what their status is, in bulk? Do we really know, or is it a ballpark number like we have been having here?

Senator **Exon**. My answer is it is a ballpark number. I do not have basically what it would be, but I think the Secretary's characterization of 10 to 15 percent of our farmers that today cannot get new loans to put their crops in the ground—he says it might be half that. I think it may be a little above 15 percent.

Certainly, somewhere between 7 and 20 percent is the figure now who do not have loans to put their crops in the ground.

Secretary **Block**. I would say that is about right.

Chairman **Domenici**. And the basic reason for that is their cash flow projections do not justify sufficient loan for the cost of putting the crop in; is that basically it?

Senator **Exon**. That is one of the main reasons, and the other main reason is that despite the figures that the Secretary uses, the Farmers Home Administration has not been able to take care of very many, if any, new borrowers that have applied to their agency.

Chairman **Domenici**. Senator Sasser.

FARMERS FEEL THEY ARE VICTIMS OF A CONSPIRACY

Senator **Sasser**. Thank you, Mr. Chairman.

Mr. Secretary, there is a growing perception in the farming communities across this country that there is a concerted effort to push the farm families off the land. A growing number of farmers are beginning to feel that they are victims of a conspiracy designed to increase or decrease substantially the number of farmers in this country.

Now, Mr. Stockman—and make no mistake about it—David Stockman is the Director of the Office of Management and Budget because President Reagan put him there. He does not make his policies in a vacuum. He is Ronald Reagan's Director of that Office. And you, Mr. Secretary, the Secretary of Agriculture, you are not a free agent. You were asked to take this job by the President of the United States. You carry out his policies, and I assume if you disagreed with those policies or could not conscientiously carry them out, you would feel compelled to resign. So I do not beat you over the head, Mr. Secretary, and I do not beat Mr. Stockman over the head. You two individuals are carrying out the policy of the President of the United States that put you in this job. And the policy you are carrying out is Ronald Reagan's policy with regard to agriculture in this country. And when Mr. Stockman makes remarks about dynamic growth and economic schemes to affect the farming community, I assume he is carrying out the policy of this administration.

There is a growing perception, though, that the bottom line is that this administration wants to shake out a number of farmers, hundreds and thousands of them, and get them off the land. And we have these programs that nobody can seem to take advantage of. We had the program that you discussed a moment ago here with our chairman, that you say was propounded, put together, in consultation with bankers, it allowed for a 10-percent writeoff of principal on the front end. Not a single bank, not a single farm bank in the State of Tennessee took advantage of that program. Not a single farmer was able to utilize the 10-percent writeoff of principal on the front end that was announced with such great fanfare before the elections last fall.

Then, the Farmers Home Administration came in with their proposal just before the election last year, and I think this proposal might have been delivered to most farmers by certified letter a few days before the election. This was the offer to stretch out repayment over 5 years, the deferred payment plan. In my State of Tennessee 3,192 farmers applied for that, and do you know how many of them were successful in getting that deferred payment plan, Mr. Secretary, as of January 25 of this year? Fifteen—15 out of 3,192.

Now, no wonder farmers are beginning to think that there is indeed an unspoken agenda here: an unspoken plan to force them from the land.

I agree with many things my distinguished chairman says about this particular issue and others. But here, when a farmer loses his farm, it is more than losing a job, as you know. It is generally the loss of a home. It is the loss of everything they have got; it is the loss of a way of life.

Now, when we talk about market-oriented farm policy at a time when there really is not much of a market for farm products, what are farmers supposed to think about that?

Why don't we just play it straight with them and say,

> Ladies and gentlemen, a certain number of you have got to go. There are going to be a substantial number of farmers that are going to go under, and that is the way it is going to be," and quit playing these games with them, announcing these programs that we know will not work, announcing these Farmers Home Administration programs, and then not having the personnel to actually put them into place. Why don't we just lay it on the table and be honest with them and tell them, "This Administration has decided in its wisdom that it is going to let a substantial number of farmers across this country, up to one-third if necessary, go under this year."

Why don't you just say that?

Secretary BLOCK. Senator, I think that really, in all honesty, you would agree privately that there is no conspiracy to try to get the farmers off the land. If there was a conspiracy——

Senator SASSER. Tell me what they are saying, Mr. Secretary.

Secretary BLOCK. May I finish?

Senator SASSER. Go ahead and finish, but that is what you are telling me.

ADMINISTRATION DEEPLY CONCERNED ABOUT FARMERS

Secretary BLOCK. If there was a conspiracy, if there was a real intention here, do you think that the spending on farm programs would have been acceptable, to see them go up and spend what we have spent, $63 billion? That is money to farmers. Do you think that we would have reached out and provided just in this 6-month time frame, there will be about $15 billion to farmers?

The truth is, this administration is deeply concerned about farmers. The President is concerned, and I am concerned, and others are concerned. We have worked hard to expand exports. We have got $5 billion of export moneys, far more than we have ever had.

We have been struggling in the face of some very difficult circumstances. And I would just submit that some of the problems we face—most of them—I am not so sure who is going to solve them. Certainly, the Secretary of Agriculture cannot solve them. You cannot solve some of them either, but you can help us solve them. And the problems are a dollar that is stronger than we would like to see, and it is hurting our competitive position in exports. The farmers could get more money out of the marketplace if the dollar were weaker compared to other currencies. Interest rates, still hanging higher than we would like to see. Interest rates have come down, but the dollar has not come down as much as we thought it would. We thought it would come down when interest rates came down, and it is still hitting record highs. It just boggles my mind, and if you have an answer to it that we can implement to change this, to help agriculture's competitive position and get agriculture back on its feet, I am ready to listen, and I am ready to help find solutions with you.

Senator SASSER. Mr. Chairman, these are the transcripts of some hearings taken in western Tennessee, field hearings of this Senate Budget Committee, in which we took testimony on January 10, 1985, from farmers in that area, from bankers, from Farmers Home Administration people. And I would recommend this to you and your staff for reading, Mr. Secretary.

Secretary BLOCK. Thank you.

Senator SASSER. I think you will see that when I tell you that farmers think there is a conspiracy in the wind here, you will see it, I think, reflected in these hearings.

Now, I think we could do things as basic as giving the Farmers Home Administration the personnel to execute and carry out these policies or agendas that you have announced.

Now, when you announced the deferred payment system in Farmers Home Administration, when I tell you that 3,192 farmers in Tennessee applied for that program, and that as of January 25 of this year, only 15 had access to it, one of the reasons, the big reason given—I asked the Farmers Home Administration man about it. He said, "Senator, we do not have the personnel to process and handle all of these applications." That is one thing we could do toward solving the farm problem.

My time is running out, but Mr. Chairman, if you will bear with me for just a moment, there is one other item I need to touch on very quickly.

Chairman DOMENICI. We have the Secretary of Treasury waiting, but I will defer. Go ahead.

SEVERE EROSION PROBLEM IN WESTERN TENNESSEE

Senator SASSER. Thank you. Mr. Secretary, the western part of Tennessee has some of the most severe soil erosion problems in the United States, as you well know from your vantage point in Missouri. You can fly over that Mississippi River around Memphis and just see it turn brown with that west Tennessee topsoil washing off into it. Technicians tell us that maybe 5 tons of topsoil per acre per year is an acceptable loss; yet we lose as much as 100 tons per acre in some areas of west Tennessee. We have gotten that down now in some areas to as little as 9.5 tons per acre. We still average losing 15 to 20 tons per acre.

Now, given that, how in the world, you being a farmer, knowing the value of topsoil, knowing we need to protect this for future generations, how in the world can you send a budget up here and recommend that we make substantial cuts in the Soil Conservation Service, and indeed, look in the direction of doing away with this agency in the years to come?

I see, Mr. Chairman, the photographs or videotapes coming out of Ethiopia, that dust bowl there; you can see the dust bowl of the 1930's. We could be headed back in that direction if we zero out some of these programs of the SCS.

How do you justify that?

OFFICES ARE OVERBURDENED

Secretary **Block**. Senator, first of all, in regard to the number of applicants that have been approved for the Farmers Home rescheduling in Tennessee, I cannot speak to that State. But nationwide, we have provided 15,000 reschedulings, and we have had 100,000 requests. That is not too bad. And we are still working on it. So I think there will be considerable help here from our point of view.

But I will admit that our offices are overburdened, and we have added personnel in many parts of the country. It is hard to find qualified people to come in and do this work, but we are trying to do that.

As far as the soil conservation question is concerned, we are preserving the technical assistance to the farm people, and we are going to preserve the soil mapping. The other areas of support, we do propose to discontinue, and I believe that there is a silent revolution going on in this country in soil conservation. The silent revolution is being led by farmers that are adopting new and improved practices of conservation, conservation tillage. About one-third of the land nationwide is being tilled this way, and 10 years ago, it was less than 10 percent.

And this silent revolution will not end; it will continue, and we will all have a part in providing leadership for it.

Thank you very much.

Senator **Sasser**. Mr. Chairman, my time has expired. I ask unanimous consent that my statement be printed in the record as if read.

Chairman **Domenici**. Without objection; it will be inserted.

Senator **Sasser**. Thank you.

[The prepared statement of Senator Sasser follows:]

Prepared Statement of Senator Sasser

Today, the form community across this country is in a state of crisis. From Tennessee to Iowa to Nebraska, Mr. Secretary, farmers are desperately trying to hold on to their livlihoods.

The President's budget ignores these pleas. In fact, the administration's track record on farm issues coupled with economic policies which have perpetuated the highest real interest rates in the history of the Nation, have only worked to increase the burden on America's farmers and agricultural goods.

While David Stockman has sliced agriculture in the budget by some $22 billion over the next 3 years, you are working for passage of a farm bill which drops many existing farm programs in favor of a market-oriented approach.

Such a two-pronged approach is more of a pitch-fork rather than a meat-axe method of eliminating the family farm.

These budget proposals include:

Reduced target prices and loan rates at market levels.

A cap on deficiency payments and loan levels.

Termination of farm ownership loans which provide for development and improvement of family farms.

Phase out of disaster loans.

Termination of Federal crop insurance subsidy.

Forty percent reduction in operating farm loans.

$265 million reduction in agriculture research and extension service.

The farm economy is now becoming a crisis in farm banking. Our farmers are facing shrinking world markets. And our farmers simply cannot meet the obligation of paying very high interest rates at a time when their production costs continue to escalate and their net farm income is down.

In January, I held hearings down in my State of Tennessee. And I listened to what those farmers had to say. I think it is time that this administration started to listen to what they had to say as well.

Chairman DOMENICI. I promised Senator Exon he could ask a couple of questions, and while we are late, let us do that. Before he does that, could I suggest that you take a look at the personnel situation within Farmers Home? I think the Senator makes a point, and I should have made it myself.

Secretary BLOCK. It is true.

Chairman DOMENICI. I do think they are having a very difficult time, Mr. Secretary, and I hope we are not trying to cut back on them in the midst of asking that they do more work, and I think it is important.

Senator SASSER. If I could make one final point to you, Mr. Chairman, I think this business about a conspiracy does arise from the feeling on the part of farmers that they are getting the bureaucratic brushoff at the agencies, and just paper shuffling, and part of it is just not enough manpower to handle the requests.

Chairman DOMENICI. I think the Senator is correct.

Senator Exon, could you do it in 2 minutes?

Senator EXON. I will try. I have been waiting patiently, as you well know.

Chairman DOMENICI. Please do.

Senator EXON. Earlier you said to me, Mr. Secretary that you and the President met last in January. When in January?

Secretary BLOCK. I do not have a date on that.

Senator EXON. Well, was it the first part of the month, or the middle of the month?

Secretary BLOCK. Yes; it would be in the early part.

Senator EXON. The early part of January.

Secretary BLOCK. Yes, sir.

Senator EXON. Well, that means what you are telling us today is that for the last 6 weeks while the bottom has fallen out of the farm economy, you have not discussed this with the President individually for the last 6 weeks?

Secretary BLOCK. I have not discussed it with him individually, but in the Cabinet, I discussed it early this year, within 6 weeks, and it has been talked about and been the primary subject of a full

Cabinet meeting. And I would submit that that is a very good place to have a well rounded, complete discussion on the subject.

Senator EXON. I do not believe that the full Cabinet can present the crisis in rural America as well as you, as the Secretary of Agriculture, could.

COST ESTIMATES FOR THE 1985 FARM BILL

But let me move on to something else. You used a chart here, if we could get the chart out,[1] on cost estimates for the 1985 farm bill that I want to ask you a question about. You said then—and I think we should have some clarification of that—I believe you said, did you not, that this was the spending program for the 1985 farm bill?

Secretary BLOCK. It is what it would cost if——

Senator EXON. Now, what percentage of that—we talk about spending. Money that we spend for food stamps, which is in here, I presume—right?

Secretary BLOCK. No; this is the farm bill.

Senator EXON. This is just the farm bill only?

Secretary BLOCK. The farm program.

Senator EXON. With no food stamps?

Secretary BLOCK. Farm program expenditures.

Senator EXON. OK. Now, what percentage of that is loans that are going to be paid back, and what percentage of that is direct outlays that will never come back, such as for deficiency payments?

Secretary BLOCK. All right. This is——

Senator EXON. Is it two-thirds of that loan money that will come back as opposed to "spending"?

Secretary BLOCK [conferring with staff]. All right. The consensus is about half are loans, and about half would be grants of different kinds.

Senator EXON. So in other words, we could cut that all in half if we got the money that we were going to get back from loans being repaid?

Secretary BLOCK. The outlays are a net figure. It is the amount out minus the amount back in. And if the outlays are exceeding the amount back in all the time——

Senator EXON. I understand that. But let us say we cut off all farm programs after this year. How much of that $85 billion that you have would be repaid? Half of it?

Secretary BLOCK. No; I think part of it would not be repaid because it is grants, and part of it would be repaid because it is——

Senator EXON. That is my question. What percentage of it——

Secretary BLOCK. Let say half and half, and then half of the loans probably, at least, would be repaid.

Senator EXON. Then it is fair to say that approximately half of the money is not spending in the traditional sense?

Secretary BLOCK. That is true; it is not loss.

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[1] See p. 43.

COST OF FARM PROGRAMS ARE A CONCERN

Senator **Exon**. OK. Just one other point I want to make. We are very much concerned today, or at least the administration is, about what the farm programs are going to cost. And I would tell you that under your own figures, if you go to the loan rate on corn of $2.12 a bushel, which you are recommending for the new farm bill, and you and I know that traditionally, the market price for corn has very closely followed the loan rate, you know and I know that if that continues, you cannot raise corn profitably for $2.12. You know that as a corn farmer, right?

Secretary **Block**. No; $2.12 is not enough, but we want the prices to be above the loan.

Senator **Exon**. I am not so sure, but I just wanted to mention that if we are worried about the amount of money, I noticed in the Washington Post this morning that the Federal Government's $3.5 billion, 5-year cash loan to the troubled Continental Illinois Bank of Illinois was arranged last May so that it would not show up anywhere as a budget expenditure, according to new reports from the Congressional Budget Office.

If we can cover up these loans or expenditures for the Continental Illinois National Bank, couldn't we use the same system to help out agriculture in especially troubled times?

Secretary **Block**. I do not know about that article or what you are talking about there, but I think that as responsible representatives of the people, we have to deal with the situation as it is and be upfront about it, whatever it is.

Senator **Exon**. Thank you, Mr. Chairman, and thank you, Mr. Secretary.

Chairman **Domenici**. Mr. Secretary, we appreciate your accommodating us.

Secretary **Block**. Thank you, Mr. Chairman.

Chairman **Domenici**. We are in recess just momentarily, until the Secretary of Treasury can take a seat.

[Whereupon, at 2:45 p.m., the committee was in recess.]

WRITTEN QUESTIONS FROM SENATOR SYMMS TO SECRETARY BLOCK AND THE RESPONSES

ANIMAL DAMAGE CONTROL PROGRAM

Question: In correspondence to myself and 19 other fellow Senators, former Secretary of Interior Clark recently announced that he believed the USDA to be the most appropriate agency of jurisdiction for the Animal Damage Control program. As you know, Congress originally assigned this responsibility to the Secretary of Agriculture in an effort to reduce animal-caused losses to farmers and stockmen. What efforts are you taking to reassume this responsibility, transferring the ADC program back to the USDA where it belongs?

Answer: We recognize the need to protect our livestock producers from losses due to predators and have examined the history of ADC authority. The agricultural community's position that the program should be housed within the USDA has merit. I am working with the Secretary of Interior to examine the issues involved.

NATIONAL SMALL GRAINS COLLECTION

Question: Grain producers representing every state from Kansas to Washington have contacted me urging the relocation of the Small Grains Collection to the current "grow-out" station in Aberdeen, Idaho. Reasons for this are apparent. The Collection, currently located at the Beltsville Agricultural Research Center, is thousands of miles away from the heart of the Nation's grain production. In contrast, every single variety of grain grown in the U.S. can be found within a 100-mile radius of Aberdeen. How can we justify budgeting for maintenance and operation of the Collection in its current location, when no effort is being made to more effectively relocate it?

Answer: The National Small Grains Collection has effectively served the Nation from Beltsville for nearly 40 years. In recent years, the Agency has spent $120,000 to upgrade and expand these storage facilities. Under the present budget situation, we feel it is more prudent to upgrade existing facilities than to take the much more costly step of building a new facility. It is our opinion that the "Collection" can be accommodated at its present location for several more years. These seed storage facilities are essentially a mail-order type operation for plant breeders who operate in all wheat growing areas throughout the United States and even overseas. The Agricultural Research Service is presently expanding its own germplasm evaluation and enhancement at Aberdeen, Idaho.

STATE AND LOCAL GOVERNMENT

THURSDAY, FEBRUARY 21, 1985

U.S. Senate,
Committee on the Budget,
Washington, DC.

The committee met, pursuant to notice, at 2:25 p.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Gorton, Chiles, Sasser, and Metzenbaum.

Stafff present: Stephen Bell, staff director; and Jan Lilja, senior analyst for human resources group.

For the minority: Richard N. Brandon, staff director; and Lisa Faulkner, analyst for State and local government.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman Domenici. The committee will please come to order.

We are pleased to have our distinguished guests with us, representing the Governors, the mayors, the State legislators, and the commissioners. I have a prepared statement, but in the interest of time, I will just make it a part of the record.[1] Most of you at the witness table have heard what I have had to say heretofore, and my views have not changed much during the past several weeks of hearings.

This committee is confronted with a number of very difficult jobs, not the least of which is a difficult somewhat arcane budget process. Second, we have clearly reached a consensus that a small deficit reduction package is not worth undertaking. Third, the package ought to have a multiyear effect, so that there is some certainty that the deficit will come down, given certain economic assumptions over the next 3 years. Clearly that is not easy. Defense, social security, Medicare, and interest compose about 84 percent of the budget. That does not leave much room to make savings. Last but not least, there seems to be a growing consensus that we should do something dramatic. The notion of freezing everything seems to be gaining some momentum. I think we, at the committee level, are all fully aware of what a freeze does, and what it does not do, in light of the problems that I have just described.

Having said that, we are delighted to have you here.

[The prepared statement of Chairman Domenici follows:]

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[1] See p. 84.

PREPARED STATEMENT OF CHAIRMAN DOMENICI

THIS AFTERNOON WE CONTINUE OUR SERIES OF HEARINGS IN PREPARATION FOR THE FIRST CONCURRENT BUDGET RESOLUTION FOR FISCAL YEAR 1986. TODAY'S HEARING WILL FOCUS ON THE IMPACT OF THE FEDERAL BUDGET ON STATE AND LOCAL GOVERNMENTS.

THE SENATE, AND PARTICULARLY THE BUDGET COMMITTEE, WILL FACE A SERIES OF DIFFICULT DECISIONS IN THE UPCOMING YEAR WITH REGARD TO THE BUDGET. DESPITE OUR ATTEMPTS OVER THE PAST FOUR YEARS TO REDUCE GOVERNMENT SPENDING, DEFICITS ARE PROJECTED TO BE IN THE RANGE OF $200 TO $250 BILLION THROUGH FY 1988. EVEN WITH THE $50 BILLION WORTH OF SPENDING REDUCTIONS PROPOSED BY THE PRESIDENT IN FY 1986, THE DEFICIT WILL STILL BE OVER $140 BILLION IN FY 1988.

I AM NOT ONE WHO BELIEVES THAT STATE AND LOCAL GOVERNMENTS ARE CURRENTLY ROLLING IN CASH, AND SHOULD THEREFORE BEAR THE BRUNT OF SPENDING REDUCTIONS. HOWEVER, FEDERAL AID TO STATE AND LOCAL GOVERNMENTS HAS GROWN STEADILY OVER THE PAST THREE YEARS:

BY 5 PERCENT BETWEEN FY 1982 AND FY 1983, BY 6 PERCENT BETWEEN FY 1983 AND FY 1984, AND BY 10 PERCENT BETWEEN FY 1984 AND FY 1985.

IN THE AGGREGATE, STATE AND LOCAL GOVERNMENTS ARE IN BETTER FISCAL HEALTH THAN THE FEDERAL GOVERNMENT. THE COMBINED STATE AND LOCAL SURPLUS WAS $7.7 BILLION (EXCLUDING SOCIAL INSURANCE FUNDS) IN THE FOURTH QUARTER OF 1984. EVEN THOSE JURISDICTIONS THAT ARE IN THE RED ARE NOT RUNNING DEFICITS PROPORTIONATELY NEARLY AS LARGE AS THE FEDERAL GOVERNMENT'S. STATE AND LOCAL GOVERNMENTS WILL THEREFORE HAVE TO ABSORB THEIR FAIR SHARE OF ANY DEFICIT REDUCTION PLAN.

WE ARE INTERESTED IN HEARING WHAT HAS HAPPENED TO STATE AND LOCAL GOVERNMENTS UNDER THE CHANGES THE CONGRESS ENACTED IN 1981. BOTH THE URBAN INSTITUTE AND THE PRINCETON UNIVERSITY STUDY DONE BY PROFESSOR RICHARD NATHAN FOUND THAT THE BUDGET CUTS HAVE NOT HAD THE DISRUPTIVE EFFECT ON STATE AND LOCAL GOVERNMENTS THAT SOME DOOMSAYERS PREDICTED. IN FACT, MOST STATES AND LOCALITIES

ARE THRIVING. THOSE THAT ARE STILL RUNNING DEFICITS ARE PRIMARILY VICTIMS OF CIRCUMSTANCES BEYOND THEIR CONTROL. FOR EXAMPLE, TEXAS IS PROJECTING A $1 BILLION SHORTFALL PRIMARILY DUE TO STAGNANT OIL AND NATURAL GAS PRICES.

A SERIES OF GAO STUDIES FOUND THAT THE BLOCK GRANTS CREATED BY THE OMNIBUS RECONCILIATION ACT OF 1981 HAVE ACCOMPLISHED WHAT THE CONGRESS INTENDED. STATES ARE ABLE TO SPEND LESS TIME AND EFFORT PREPARING APPLICATIONS AND REPORTS WHILE HAVING GREATER CONTROL OVER PROGRAM PRIORITIES AND THE USE OF FUNDS. AGAIN, THOSE WHO PREDICTED DISASTER WERE WRONG.

I HAVE HEARD CONCERN AMONG STATE AND LOCAL OFFICIALS THAT THE PRESIDENT'S SUGGESTIONS WOULD HARM STATE AND LOCAL GOVERNMENTS, ESPECIALLY THE LARGE AND MIDDLE-SIZED CITIES. THEREFORE, I WAS VERY INTERESTED TO READ THE "COLUMBUS CONTINGENCY PLAN" PREPARED BY MAYOR DANA ("BUCK") RINEHART OF COLUMBUS, OHIO. IN THE PLAN, MAYOR RINEHART PROPOSES TO REPLACE APPROXIMATELY $7.2 MILLION, OR 65 PERCENT, OF THE $11.4 MILLION IN FUNDING REDUCTIONS PROPOSED

BY THE PRESIDENT FOR THE CITY OF COLUMBUS. THE PLAN AVOIDS REDUCTIONS IN BASIC CITY SERVICES AS WELL AS GENERAL TAX INCREASES. INSTEAD, IT INCREASES REVENUES BY RAISING USER AND REGULATORY FEES AND SELECTED USER TAXES; PRIVATIZES CERTAIN CITY SERVICES; AND MODIFIES CERTAIN FEDERAL AND/OR STATE REGULATIONS TO GIVE LOCAL GOVERNMENTS GREATER FLEXIBLITY.

IN SUMMARY, NOT ONLY HAVE WE NOT DISRUPTED RELATIONS WITH STATE AND LOCAL GOVERNMENTS, BUT THESE JURISDICTIONS ARE IN BETTER FISCAL CONDITION THAN THE FEDERAL GOVERNMENT. THE BLOCK GRANTS HAVE REDUCED COSTS AND REGULATION REQUIREMENTS FOR STATE AND LOCAL GOVERNMENTS WHILE GIVING THEM MORE CONTROL OVER THEIR DECISION-MAKING. IN ADDITION, MAYOR RINEHART SAYS THERE ARE OPTIONS TO HANDLE EVEN DEEPER CUTS IN FEDERAL AID.

I LOOK FORWARD TO HEARING SOME CREATIVE DISCUSSION TODAY, INCLUDING IDEAS ABOUT HOW AND WHERE REDUCTIONS IN FEDERAL AID CAN BE ABSORBED BY YOUR GOVERNMENTS. ALSO, I HOPE TO HEAR YOUR PRIORITIES REGARDING WHICH PROGRAMS YOU MUST HAVE AND WHICH YOU

CAN LIVE WITHOUT.

I WOULD NOW LIKE TO INTRODUCE TODAY'S WITNESSES.

THE HONORABLE JOHN CARLIN, GOVERNOR OF KANSAS AND CHAIRMAN OF THE NATIONAL GOVERNORS' ASSOCIATION, WILL BE TESTIFYING FIRST BECAUSE HE NEEDS TO LEAVE AT 3:00 P.M. FOR A PRIOR APPOINTMENT.

NEXT, THE HONORABLE JOHN MARTIN, WHO IS THE SPEAKER OF THE HOUSE IN THE STATE OF MAINE, WILL TESTIFY ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES.

NEXT WILL BE THE HONORABLE GEORGE VOINOVICH, MAYOR OF CLEVELAND, OHIO AND PRESIDENT OF THE NATIONAL LEAGUE OF CITIES.

FINALLY, WE WILL HEAR FROM THE HONORABLE PHILIP ELFSTROM, COUNTY COMMISSIONER OF KANE COUNTY, ILLINOIS AND PRESIDENT OF THE NATIONAL ASSOCIATION OF COUNTIES.

I WANT TO THANK OUR WITNESSES FOR TAKING TIME OUT OF THEIR BUSY SCHEDULES TO APPEAR BEFORE US. GOVERNOR CARLIN, PLEASE BEGIN.

Chairman Domenici. Senator Metzenbaum, did you want to add anything?

Senator Metzenbaum. No.

Chairman Domenici. I thank you very much. Senator Gorton?

Senator Gorton. No.

Chairman Domenici. Let us proceed, then. Let's begin on this side, and ask the distinguished Governor of Kansas to give us his testimony. Your prepared written testimony will be made a part of the record. You can present it in full or excerpt from it, whichever you chose.

STATEMENT OF HON. JOHN CARLIN, GOVERNOR OF THE STATE OF KANSAS, CHAIRMAN OF THE NATIONAL GOVERNORS' ASSOCIATION

Governor Carlin. Mr. Chairman, members of the committee, I do represent the National Governors' Association today, and I have written testimony that I ask be included in the record.[1] I have a shorter statement that I would like to read.

It is certainly a pleasure to be here, and to be a part of this debate as you discuss the budget for 1986. We Governors are keenly aware of the importance of your deliberations. The current and projected Federal deficits will have a major impact on State as well as Federal budget decisions, and we believe it is important to participate in any dialog involving the Federal budget.

Today, I would like to discuss three issues which I believe are important to your deliberations. First, I want to explain the position of the Nation's Governors on the Federal budget. Second, I want to outline briefly the fiscal condition of the States, and finally, I want to highlight some of the potential effects of the President's proposed 1986 budget on State governments.

DEFICIT MOST IMPORTANT ISSUE FACING STATE GOVERNMENT

In listing priorities for this year, Governors have identified the deficit as the most important issue facing State government. While most States have experienced recovery from the 1982-83 recession, there is a realization that recovery will be temporary, unless the growing deficit is addressed.

States heavily dependent upon agriculture, such as my own, are feeling the effects of the deficit. High interest rates in a highly capital-intensive industry have meant most farmers work to make interest payments. They see little or no profit, or even heavy losses.

An overvalued dollar abroad has led to reduced export markets at a time when one-third of all our grain sales must be made overseas. These impacts have created a crisis condition which I am sure you are aware of, given the national media attention. And while the agricultural crisis is highly visible, other segments of the economy are also affected, as evidenced by a $120 billion trade imbalance.

Now, for years, and you are well aware of this, Governors have come before this committee and asked for more. For several years, however, that trend has been changing. Beginning 2 years ago,

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[1] See p. 93.

Governors adopted budget policies recognizing the realities you face in setting spending priorities. It was concern about the deficit that brought the Governors to that point.

In each of the last 2 years, the Nation's Governors have adopted a bipartisan, comprehensive position on the Federal budget, and they will consider a third at our winter meeting coming up this next weekend.

Past resolutions have called on the administration and the Congress to work in a bipartisan fashion to attain the goal of reducing the Federal deficit to 2 percent of GNP by 1989. In meeting this goal, the Governors believe it important that national defense share in the reduction with domestic spending, and that revenue increases should be considered.

FREEZE ON SPENDING BEING CALLED FOR

The draft policy statement that we will work on this next weekend calls for Congress to enact a freeze on spending in fiscal year 1986, and then to enact major reforms in the nonmeans tested entitlements, in order to increase long-term control over the Federal deficit and the budget.

This approach could take the deficit, in our judgment, to approximately 1 percent of GNP by 1990. Specifically, the draft policy calls for a freeze in nominal dollars for nondefense discretionary spending, in real terms for national defense, and a freeze on all COLA's with the exception of Social Security. But I might add, I personally agree that Social Security ought to be included in a balanced budget effort to address the deficit, and I will work toward that end.

Furthermore, it urges the Congress to freeze doctor and hospital reimbursements under Medicare. If adopted, the policy also urges the Congress to enact major long-term reforms in Medicare and Federal pensions, to further reduce long-term spending.

Our intent in debating and adopting budget policy positions is to signal our understanding of the scope of the problem, and our willingness to act as partners with you in solving it.

However, we believe the partnership must be based on realistic assumptions regarding the role each partner can play in the solution.

STATES DO NOT HAVE SURPLUSES TO ABSORB FEDERAL BUDGET CUTS

We ask that you recognize the difference between what is possible, and what is not, in terms of what States can be a part of, in bearing the result of deficit reductions.

We realize that deficit reduction will require States to assume a larger share in supplying essential services. However, we do not believe reductions should be based on misconceptions regarding the fiscal condition of the States. Recent reports regarding state surpluses do not consider several factors.

For example, a recent survey of NGA and the National Association of State Budget Officers indicates that the fiscal year 1985 end-of-year balance will be approximately $5.3 billion, or only 2.9 percent of spending during that year.

It is also true that about 50 percent of the entire surplus is in only five States, and while it is true that some States will be reducing taxes, it is also true that many will be increasing them.

The net tax reduction plan for 1986 is only $1.1 billion or one-half of 1 percent of spending. States with decreases, I might add, are those who raised taxes tremendously during the recessionary years. Because of the inability to predict the impact of the recession, some of those States raised taxes higher than proved to be necessary.

Thus many reductions come in the wake of a political price that was paid in earlier times. It is also important to realize that States have deferred considerable infrastructure, education, and environmental spending during this period. Programs such as these, of course, are good examples of a Federal-State partnership, since they all have impacts far beyond our own individual State borders. Clearly, States do not have significant surpluses to absorb Federal budget cuts, and we ask that as cuts are made, that factor be kept in mind.

Governors are willing to accept the fact that we must all share in the burden of deficit reduction, but we ask that the share we are asked to accept be based on realistic and equitable cutbacks.

OVERALL BUDGET DOES NOT SHARE BURDEN EQUALLY

And as we compare the President's 1986 budget proposal relative to our own budget policy, we note that the attempt to reduce the deficit to 3 percent of the GNP in 1988 is in line with our policy.

However, it is not believed that the overall budget shares the burden equally across defense and nondefense spending. With respect to national defense, spending has increased 100 percent between 1981 and 1985, and thus some slowing of this rate of increase is appropriate, in our judgment, to maintain the cost-effectiveness in weapons systems and other procurement.

Concerning nondefense discretionary spending, this category has already been reduced 20 percent in real terms over the last 5 years, and given that this category is the investment portion of the budget, we would rather not see additional cuts in this area.

To make all budget cuts in the nondefense discretionary portion of the budget merely puts off the real problems another year. For all the expenditure growth in the budget this year—as well as that projected for the future—is in national defense and middle-income entitlements.

These are the components which must be restrained, and must share in the burden. With respect to the specific budget cuts that the administration has recommended, we would have to take great exception to the Medicare cut, and the imposition of caps on administrative costs in AFDC, food stamps, and Medicaid.

Second, we would have considerable problems with the elimination of funding for the Work Incentive Program, the cuts in child nutrition, State energy programs, and employment and training.

We are opposed to the magnitude of reductions in aid to local governments, including general revenue sharing, mass transit, community services block grant, UDAG, and EPA construction grants.

And finally, we are concerned about the impact of proposed cuts on the agricultural sector of the economy. This sector, as I stated previously, is especially vulnerable to the effects of the deficit, and while agricultural programs must also share in cuts, the long-term impact of those cuts must be considered.

For instance, we gain little by cutting soil and water conservation programs by 44 percent, if we must later spend significantly more because of damage to those resources. The specific impact of the areas I have just outlined are explained in detail in my written testimony, and, of course, I would be happy to answer any of your questions.

SOLUTIONS WILL COME THROUGH PARTNERSHIP

In summary, Mr. Chairman, the Nation's Governors share in the concern about the deficit, and the economic future of this country. We believe that solutions will only come through a partnership between the States and Federal governments. We are willing to work as equal partners with you.

I certainly thank you for this opportunity to express the views of the Nation's Governors, and would be most happy to answer any questions you might have, Mr. Chairman, and members of the committee. Thank you.

Chairman DOMENICI. Thank you very much, Governor.

[The prepared statement of Governor Carlin follows:]

STATEMENT OF

GOVERNOR JOHN CARLIN

CHAIRMAN OF THE

NATIONAL GOVERNORS' ASSOCIATION

before the

COMMITTEE ON BUDGET

UNITED STATES SENATE

on

THE IMPACT OF THE PRESIDENT'S 1986 BUDGET ON STATES

February 21, 1985

Mr. Chairman:

It is a pleasure to be here today as you begin the debate on the federal budget for fiscal year 1986. In my remarks I would like to address three issues which I believe are important in your budget deliberations.

1) The Governors' position on the federal budget,
2) The fiscal condition of the states, and
3) The impact of the President's 1986 budget request on state governments.

Federal Budget Position

The current economic recovery with its lower unemployment rate and price stability is very welcome, particularly after the 1981-83 recession which proved to be the longest and deepest of the postwar period. However, this economic optimism will not last very long as even now the failure to address the huge federal deficit is setting the stage for substantially lower economic growth during the next two decades. Without firm action on the deficit, this is the best that can happen--the worst is another recession longer and deeper than our most recent experience or perhaps a return to the extremely high inflation rates of the 1970's--or both. Already we are witnessing a severe recession in many of the farming states where land values have plummeted as much as 60 percent and farm foreclosures are the highest in recent history. Not only is the economy being negatively impacted by high interest rates directly, but the deficit-related interest rates are also creating an overvalued dollar which is creating a $120 billion trade imbalance which hurts agricultural exports as well as industries from microelectronics to automobiles.

These economic concerns have led the nation's Governors to adopt a bipartisan comprehensive position on the federal budget for the last two years. The current NGA position calls on the Administration and Congress to work in a bipartisan fashion to attain the goal of reducing the federal deficit to 2 percent of GNP by 1989. To meet this goal, the Governors urged that national defense share in the reduction with domestic spending and that revenue increases be enacted. Specifically, the policy calls for holding growth in non-defense discretionary spending to less than the inflation rate, allowing national defense to grow more slowly in real terms and to enact changes in the non-means tested entitlement programs that would save $25 billion in 1989 relative to current policy. Non-means tested entitlements are assumed to receive full funding in the NGA position.

Next week the nation's Governors will be debating a revised position on the federal budget which in draft form calls on the Congress to enact a modified freeze on spending in fiscal year 1986. Specifically, the policy calls for a freeze in nominal dollars for non-defense discretionary spending, in real terms for national defense and a freeze on all COLAs (with the exception of Social Security and the needs-tested entitled programs). Furthermore, it urges the Congress to freeze doctor and hospital reimbusements under Medicare and then to enact major reforms in the non-means tested entitlements in order to increase the long-term controllability of the federal budget.

Our intent in developing these positions is not to be critical, but to say we are willing to assist by both accepting a freeze on many state programs and also to help build a national consensus to enact a major deficit reduction plan this year while the economy continues strong. The window of opportunity for deficit reduction may fade in the near future if the economy begins to slow.

State Fiscal Condition

As partners with both the federal and local governments in the delivery of services to our citizens, the Governors wish to assist in deficit reduction. However, they are opposed to large shifts in current federal responsibilities to state government based on the misconception of huge state fiscal surpluses.

The fiscal condition of states in 1985 will be somewhat stronger than that experienced over the recent past, but the surpluses currently projected are quite modest given the economic and other uncertainties facing state governments. A recent survey of NGA and the National Association of State Budget Officers indicates that the fiscal year 1985 ending year balance will be approximately $5.2 billion or only 2.9 percent of spending during that year. Wall Street analysts prefer a 5 percent ending balance to maintain the high bond ratings that are so critical to the financial integrity of state government. It is also true that about 50 percent of the entire surplus is in only five states with 28 states having balances below 3.0 percent. These balances are actually very small considering the fact that the economy could slow, federal budget cuts may force states to take over some additional services and states have deferred considerable infrastructure, education and environmental spending during the 1981-83 recession. The sensitivity of state estimates to economic change is illustrated by the fact that virtually all states overestimated their FY 1983 revenues, with 24 states overestimating by 5 percent or more.

While it is true that some states will be reducing taxes, it is also true that many will be increasing taxes. The net tax reduction planned for 1986 is only $1.1 billion or one half of one percent of state spending.

In short, Mr. Chairman, it is an illusion in Washington that the states will have significant surpluses to absorb federal budget cuts. States have very small balances which they need given the economic and other uncertainties facing state governments.

The Impact of the President's 1986 Budget on State Governments

When we compare the President's 1986 budget submission relative to the NGA budget policy, we must commend the Administration for attempting to reduce the deficit to 3 percent of GNP in 1988 which is in line with our policy for deficit reduction. Regarding the allocation of cuts, however, I would have to say that the President requests substantially larger cuts in the non-defense discretionary portion and far less in the national defense and middle income entitlement programs. Furthermore, we would have to take great exception to the proposed cut in Medicaid.

Overall, we do not believe that the President's budget shares the burden equally across defense and non-defense spending. With respect to national defense, spending has already increased 100 percent between 1981 and 1985. The President is now proposing another 13 percent increase this year. It appears that some slowing of this rate of increase is appropriate to maintain the cost-effectiveness in weapons systems and other procurement. Non-defense discretionary spending has already been reduced 20 percent in real terms over the last five years and the President is proposing huge cuts again in this area. Given that this category is the investment portion of the budget (education, job training, research and development, etc.), we do not believe additional cuts are acceptable or wise. While a freeze in nominal dollars might be acceptable, we seriously question whether further cuts can be made without extreme consequences.

To make all the budget cuts in the non-defense discretionary portion of the budget merely puts off the real problem another year. All the expenditure growth in the budget this year as well as projected for the future is in national defense and middle-income entitlements. These are the components which must be restrained and share in the burden.

Turning now to the impact of the President's 1986 budget on the states, I think that the most dramatic aspect of the budget is the absence of a federalism philosophy and analysis to accompany the substantial shifts that are proposed. We are discussing the most important document on the federal system that the Administration will produce this year, and yet there has been no consultation with Governors in an attempt to set common priorities and goals. There is no discussion of the appropriate federal role in providing services to our citizens. There is no plan to ensure that the transition from current spending levels to the proposed spending amounts is accomplished smoothly.

With respect to the specific budget cuts that the Administration has recommended, we would have to take great exception to the Medicaid cut and the imposition of caps on administrative costs in AFDC, food stamps and Medicaid. Second, we would have considerable problems with the elimination of funding for the Work Incentive Program, the cuts in child nutrition, state energy programs and employment and training. Also, we are opposed to the huge reductions in aid to local governments including general revenue sharing, mass transit, Community Services Block Grant, UDAG and EPA construction grants. Finally, we would have to take exception to the large cuts in the farm programs at a time when the farm economy is facing such a difficult economic outlook.

Federal responsibility for Medicaid and other basic means-tested programs is essential because individuals with the greatest needs tend to be concentrated in states least able to meet these needs. It is instructive to review the circumstances of states disproportionately impacted by the Administration's Medicaid proposal. We estimate that the cap would reduce federal FY 1986 Medicaid funds to Iowa by about 13 percent below current law. As you know, Iowa's agriculturally based economy, which provides the base for state revenues, is severely weakened at the present time. In the past several years, the state had to cut back on its Medicaid program and constrain its provider payment rates. The most recent available federal estimates indicate that Iowa's Medicaid program covered only 39 percent of poor state residents in 1980, compared to the national average of 54 percent. These percentages have declined as the poor population has grown and states have been unable to adjust Medicaid eligibility standards to keep pace with inflation. Iowa has recently initiated a limited medically needy program for mothers and children who are too poor to afford needed care.

Mississippi, the state with the highest percentage of poor persons and the highest infant mortality rate, would realize an estimated 10 percent reduction in Medicaid funds under the cap in 1986. The state of Washington, which continues to have a weakened lumber industry, would realize an approximate 13 percent Medicaid reduction under the cap. Florida, which has a disproportionate growth in its elderly population, would realize an estimated 19 percent reduction.

A federal Medicaid cap would essentially preclude states that now cover very small and declining proportions of their poor populations from improving that situation. At a time when much of the informal private sector subsidy for the care of the poor is disappearing, and at a time when the Administration's Assistant Secretary for Health has pointed to the first slowdown in the rate of decline in infant mortality in 20 years and an apparent reduction in the timely provision of prenatal care, it would be inexcusable for the federal government to curtail its responsibility for the Medicaid program. The entitlement nature of this program must be maintained.

The Governors already have a tremendous incentive to contain Medicaid outlays. States share in any increases in Medicaid costs, which represent the largest state-administered program cost in state budgets. The states are aggressively using the increased Medicaid policy latitude the Governors asked for and received from the Congress in 1981. However, it must be noted that Medicaid provider payment rates are already substantially under Medicare rates, and Medicaid funding often is targeted towards financially stressed providers who serve large numbers of the medically indigent. Where a Medicaid payment rate freeze might be appropriate, states would need additional federal statutory authority to replicate the proposed federal rate freeze. It should also be noted that despite the freeze in physician payment rates, Medicare outlays to physicians continue to increase at double digit rates because of the increasing volume of billed services. The NGA supports reforms in such payment system to improve cost accountability and reduce incentives for more services in more expensive settings. The NGA will continue to work with the Congress to reduce unnecessary Medicaid costs, but will strongly resist cutbacks in basic federal programs for the poor.

We are pleased that the President's proposed budget includes cost of living increases for the SSI and food stamp programs and does not impose a cap on AFDC; the recipients of these needs-tested entitlement programs need continued protection from increased costs. We are concerned, however, with several proposals which would appear to shift costs within these programs from the federal government to the states; our specific concerns include:

-- the cap on federal reimbursement for administrative costs in AFDC, food stamps and Medicaid. This cap is based solely on historical expenditures and does not take into account the impact of additional caseload or of additional federal mandates. It is particularly troublesome in light of the federal emphasis on reducing errors in these programs.

-- the imposition of quality control error rate penalties in the food stamp program, AFDC and Medicaid will serve to substantially reduce federal reimbursement for administrative and program costs in these programs. These sanctions are unnecessary in light of continued state efforts to improve the accuracy of eligibility and payment decisions.

-- the elimination of funding for the Work Incentive Program (WIN). The elimination of the WIN program and the substitution of an AFDC program of mandatory work and job search programs serves primarily to reduce the level of federal reimbursement from 90 percent to 50 percent. Moreover, the states are not convinced that the proposed mandatory program can be accomplished within the projected costs.

The Governors are also very concerned about the cuts in the employment and training, and child nutrition. Also, they are concerned about the reductions in state energy conservation programs and particularly the Administration's request to use oil overcharge funds for these programs. Again, a freeze would likely be acceptable but cuts of the order of magnitude recommended by the President do not appear to be appropriate. Finally, proposed cuts in highway obligations by the Administration and the Senate authorizing committee threaten to further aggravate a bad situation this year for state highway programs. The continued imposition of annual obligation controls on state highway obligations for federal projects effectively discounts spending authority made available to states.

A similar case can be made regarding the local programs that are targeted by the Administration for either elimination or substantial reduction. These cutbacks would have repercussions for the states because local governments would increase pressure on states to replace the federal assistance. The Community Service Block Grant provides important funding which is used at the local level to tie together a wide range of service programs. The elimination of this program could have a negative impact on the total delivery system far in excess of the actual size of the CSBG. Similarly, the elimination of any new EPA construction grant starts and the large reductions in general revenue sharing, mass transit aid and UDAG are all a concern to Governors.

In summary, Mr. Chairman, the nation's Governors endorse the goals of deficit reduction incorporated in the President's budget, but believe that national defense and other non-means tested entitlement programs should also share in those reductions. With respect to our own priorities, our biggest concern is with the Medicaid cut which would be a cost shift from the federal to state government of over $17 billion over the next five years. Second, we have concern over the administrative cost caps on AFDC, food stamps and Medicaid as well as the imposition of quality control error rates sanctions and the reduction in WIN programs, child nutrition, highway and state energy conservation programs. Finally, the huge reductions in local aid appears to be out of line given the relative reductions in the rest of the budget.

Mr. Chairman, I would be happy to answer any questions.

Chairman **Domenici**. Let us next hear from Hon. John L. Martin, National Conference of State Legislators, Speaker of the House, State of Maine.

Senator **Metzenbaum**. Mr. Chairman, do you want to have questions when each speaker concludes?

Chairman **Domenici**. I would prefer not to, but if the Senator is short on time and cannot be here for the whole time——

FREEZE DEFENSE SPENDING IN REAL TERMS

Senator **Metzenbaum**. I do not have lengthy questions. I just have a few, if you do not mind.

Governor, we appreciate your testimony and we also appreciate the concern of the Governors to zero in on the problem of balancing the budget.

But as so often happens, we have difficulty, not only with Governors, but with the President of the United States in finding exactly how we do it and where we do it. Now with respect to defense spending, it is not quite clear to me, although I am not certain that you did not attempt to make it clear. Are you saying that we ought to freeze defense spending, or that we ought to freeze defense spending plus an inflationary factor?

Governor **Carlin**. The policy statement reads that we recommend you freeze defense spending in real terms, which does allow for inflation.

Senator **Metzenbaum**. But then what did you mean when you said that there ought to be some slowing of the rate of increase? And if you freeze it, you do not have any rate of increase except for the inflation factors. So I am trying to get clear: Are you saying freeze, freeze, freeze, or are you saying freeze plus a little bit of——

Governor **Carlin**. What I stated was——

Senator **Metzenbaum**. The President stated in his State of the Union Message, that we must cut $100 billion in defense spending from that which was previously planned. Well, I do not have to tell you that you fellows in politics sometimes plan pretty high figures, and then cut back. So, the President's statement did not mean much. I am just trying to tie the Governors down as to where you are on the defense issue, and then I want to find out where you are on the revenue issue, and that is all I am interested in.

Governor **Carlin**. We are talking about a freeze in real terms which would allow for inflation. Given the fact there has been tremendous increases in the past, we feel that for the first year, that would be acceptable. We would however, allow modest increases but more modest than the administration recommends for future years, so that defense can significantly contribute to the deficit reduction solution.

Senator **Metzenbaum**. You realize that a freeze, in real terms, will still allow about a $15 to $20 billion increase because they have such a solid base to work from?

Governor **Carlin**. We understand that, but compared to what the administration is recommending, if what we suggest is adopted, it would significantly help you in addressing the budget deficit.

ADDRESS CUTTING, SLICING, REFORMING FIRST

Senator **Metzenbaum**. And then you talked about revenue increases. Around here everybody—not everybody—a lot of people think that there is some merit in considering them, provided you do not step on the toes of somebody close to that particular Senator or that particular Congressperson. What are you really saying?

Governor **Carlin**. We believe you should address the cutting, slicing, reforming first. We would go along with what appears to be the direction here, that you are going to talk budget first, and then, if necessary, address revenue.

We suspect you are going to have to have revenue if the total package is going to accomplish anything, and, at some point, it is going to have to be included in the debate. We recognize that. We are willing to say publicly that is the case, and hopefully, shoulder a little bit of whatever political liability there might be in talking revenue in a year when many people say you cannot do it.

ILLEGITIMATE USE OF REVENUE BONDS

Senator **Metzenbaum**. My last question is this: One of the gaping holes that we have found, as far as the revenue side is concerned, has been not the legitimate use of industrial revenue bonds, but that which I would consider to be the illegitimate use of revenue bonds, and the failure of almost any public official at the local level to be willing to stand up and say, "We are not going to permit this because this was not really what Congress originally intended." Instead, they find some loophole to put through the tennis club, the bowling alley, the shopping center, whatever it is, and that was not what we contemplated when we adopted it.

Where do the Governors stand on that, and what will they do to help us, until such time as we can zero in on the issue?

Governor **Carlin**. You have taken some action to significantly reduce the use of such bonds. We were concerned in terms of total elimination because we consider the appropriate use of industrial revenue bonds as very, very helpful in terms of economic development.

I would personally agree with you, there has been a considerable amount of inappropriate use which was inconsistent with your intent, but I think we have significantly reduced these uses. Therefore, obviously, we are zeroing in on getting more high priority projects approved.

Senator **Metzenbaum**. Governor, I am one who has given of himself on this issue, on the floor of the Senate, and I have found some very powerful lobbies working. I would say them to you that you could do a lot more at home, Governors, and other public officials could, to keep these abuses from occurring. Because we try, we put in certain proscriptions and then they get lost in conference committee, but I will not go into the details.

I will say that the door is still very wide open, and each of you who speaks for a different sector of the public sector, at a local level, really ought to direct your attention to that issue, and try to make public officials a bit more responsible, if you are coming to us and telling us you need more money, because the fewer dollars we get in by reason of IRB's, the fewer dollars we have to deal with the budget.

Governor **Carlin**. We understand that side of the budget as well.

Senator **Metzenbaum**. Thank you, Mr. Chairman.

Chairman **Domenici**. Thank you, Senator. I understand the Governor is pressed for time and has to leave at 3. Are any of the three other witnesses on that short a timeframe? Do any of you have to leave at 3? Well, then I will just ask the Governor a couple of questions, and then we will proceed to you, Mr. Speaker.

NEW STATUTES ARE SELF-POLICING

Governor, first, on industrial revenue bonds, I think it is well known that, before now, we could not preach to the Governors because they had nothing to say about industrial revenue bonds.

We can now because of the way the new statutes were drawn. Each State gets an allocation, and you do have the power to allocate the bonds within it. I assume State legislators wonder whether you are allocating the funding correctly in a number of States, and may try to tie your hands.

But I tend to disagree with the Senator. I think we have made some major changes in what you can use revenue bonds for. We clearly have ceased their openendedness, and slowed their growth, so I believe they will be self-policing.

Governor **Carlin**. It cut us about in half, so I can assure you——

Chairman **Domenici**. Right. Governors may approve a project that builds McDonald's when they have plenty of credit, but when the industrial prospect comes and they do not have any industrial revenue bonds left, they will find themselves in a jam.

I was interested in getting a few specifics from you. If I understand you correctly, you recommend a freeze on discretionary accounts, a nominal increase in defense, and all COLA's frozen except Social Security, although you personally believe that Social Security ought to be included.

And then you stopped, and you then said, and then thereafter, proceed to reform programs so as to bring that outyear deficit down.

But I thought I heard you only mention pensions and entitlements in your description of reform. Am I correct or not?

Governor **Carlin**. In the more comprehensive policy, there will be more information on other areas. For example, I would include agricultural policy although it is not traditional entitlement. It is a program in terms of the 1985 farm bill. Some decisions in terms of long-range outlays will be a major factor in outyears.

No, we are more comprehensive than that.

Chairman **Domenici**. Well, how about the long list of domestic programs that the President has included? I heard you mention it is too much of a burden to go with mass transit and revenue sharing. Are you talking about forever, or are you talking about——

MAKE CUTS WITH SENSITIVITY

Governor **Carlin**. No, no. No, no. In terms of, if for an example—and my colleagues here I think will—I do not know what they are going to say, but I feel comfortable starting with this:

When you get—with the total elimination of revenue sharing—and on top of that, total elimination of several other programs—local government really takes it, takes it hard. It was the magnitude, in my statement, that I wanted to call to your attention; not the fact that there were cuts.

We cannot come up here—and I come here as a farmer and Governor of an agricultural State—and say you cannot cut my programs. You are going to have to. What we want is some sensitivity to those cuts so that they make sense.

You know, phasing out is tremendously different than just flat cutting off. In the case of Medicaid, it is a different situation.

I mean, we talk about a freeze, but there has got to be some judgment used in each component. We will take at least a nominal freeze in nondiscretionary, and if there have to be cuts, and I suspect there will be, I think there are some we will take. For example, the President's recommendation in economic development to the Small Business Administration, some of the economic development programs there, I think are cuts that may have to be included, for you to accomplish any significant objective, and we would be supportive.

The bottom line, Senator, I would say to you is—and I think this would apply to a lot of people concerned about cuts—if the cuts all combined are significant enough to address the problem to the extent that you and a lot of others agree it needs to be addressed, then those cuts will be well worth living with.

If we get cut and we still end up with the deficits, then you have got a different story. Our support and our willingness to really participate is based on the goal of successfully reducing those real interest rates, and taking care of the dollar, or at least start taking care of it.

Chairman DOMENICI. Well, I have no further questions. Since you might have to leave before the other witnesses are finished, I would like to make one point first. I assume that there might be some Governors who wonder whether it is worthwhile for you to come here and express your views. And whether it is worthwhile to further elaborate on your views when your association meets in a few weeks.

I want to say that it is very important, from my standpoint, that all the support we can get is appreciated.

You have been rather courageous. You did not have to take a position on many of these issues. It is our problem, obviously, and we have not always been as concerned about your problems as you appear to be about ours. But I guess that is rather understandable.

I mean, it happens that we are you when it comes to the national economics. You cannot have islands out there.

We are all in this together. And I personally appreciate your support. I assume that in the near future, you will have a chance as a group to talk to the President. I hope that is sooner rather than later. Whatever you can do to expedite that meeting would be also appreciated.

Thank you very much for being here.

Governor CARLIN. Thank you very much.

Chairman DOMENICI. Now, Speaker Martin, we will be delighted to hear from you. Thank you for giving us your time.

STATEMENT OF HON. JOHN L. MARTIN, SPEAKER OF THE MAINE HOUSE OF REPRESENTATIVES, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. MARTIN. Thank you very much, Senator, and first of all, let me thank you for the invitation, second, for your appearance this morning before the legislative leaders of the various State legislatures around the country.

And I might just add, that we were lucky enough to have the President this morning speak to us at the Executive Office Building, so that perhaps we are one up on the Governors on this point.

I do not want to repeat the testimony that is written to you, perhaps just summarize a couple of points, probably because I sat on your side of the fence as a legislator, trying to be a legislative leader, and understand the problem.

And also, I know full well from your comments this morning, that you understand the problem on the Federal level a heck of a lot better than most people, and certainly, most legislative leaders at the State legislative capitals anyway.

LITTLE ROOM LEFT TO NEGOTIATE

One point which you made, which I think is very clear, must be clearly understood by all, is that most of the cuts tend to come from that 14 percent, and that $50 billion does not leave us much room to negotiate.

This is, of course, is the section that the State and local governments are most concerned about because that is where most of it, the money that we get, comes from.

And compared to fiscal year 1985 levels, aid to State and local government is being cut by about $7 billion. When contrasted against the current services level for 1986, the proposed cutbacks amount to $10 billion for that 1 year, and roughly $100 billion over 1986 to 1990.

The programs that are of concern to us, and the Governor alluded to one in particular, Medicaid, where that program is to be cut, and the program's growth would be capped, which of course poses tremendous problems with State legislatures. Operating subsidies for mass transit, EPA construction grants, a phaseout, for example, by 1990, and, of course, general revenue sharing being totally terminated.

I will say that most of us were somewhat pleased, and I hope that it was not—I think it was not spoken out of turn, but Senator Dole, later, after you spoke, indicated that perhaps the program [revenue sharing] would be refunded, or reconstituted. So that would give us at least 1 year, and would not include, at least, the cut for the coming fiscal year.

Other programs of interest to us, agricultural credit, child nutrition, housing, student loans, economic development and agriculture, all of them are concerns to all of us at the State level.

I do not want to continue down that list but I think we all know what the list is. The list of programs in fiscal year 1986 speak directly to a massive shifting of responsibility from the Federal sector to those of us who represent State and local government, and of course, that is really why we are here.

Many programs that I have referred to are Federal programs, administered by the State and local governments. We are your agent.

ADEQUATE FUNDING POSES SERIOUS PROBLEMS

The budget proposal represents an attempt to pull back from the responsibility of adequately funding the programs, and clearly, this poses one of the most serious problems.

If there is one thing, among any other, that I leave with you today, it is if we are going to get the cuts, and if we are going to get the elimination of programs, that the mandates go with it, that the mandates not be left upon State government, to simply then run a program which was federally mandated.

Which brings me, of course, to the problem of the *Garcia* decision of yesterday, which clearly poses tremendous problems for State and local government. And the Supreme Court in effect said yesterday, "Whatever the Federal Government wants to do, you can do, and the States are going to have to follow."

Of course I am not opposed to raising the minimum wage nor the overtime provisions of the Federal law. But the point being that many States are not ready for that, were not planning on it, were not doing it, and in my own State that is not a problem but it is going to be in many others.

STATE SOVEREIGNTY IS SERIOUS ISSUE

The constitutional issue, however, is far more serious, and that is the issue of State sovereignty. As to what powers the States have in relationship to the Federal Government and what the Congress is going to do about it.

I would clearly ask the Congress to act very quickly on this item, to, in my opinion, reinstitute the issue of what I thought federalism was when I was taught constitutional law at the university.

It seems to me, that a number of years ago when the initial cuts came, States reacted fairly well to the adverse conditions, and I think that one of the things that appears to be the result of that—and the Governor talked about it—and that is the misunderstanding of the State's fiscal well-being. How much money is there in State surpluses across the country, and can we just tap that? And that was talked about today by youself and also, by Senator Dole.

The issue seems to me quite clear, that that surplus, of whatever we can say, $6 or $7 billion that the States might have, is in the hands of six or seven States, not any more than that. In my own State, for example, the surplus right now is $2,928,305, and that is with 4 or 5 months left to go in the fiscal year, and that is with a $1 billion budget. Now, granted, that is not much in total terms for anyone else, but it certainly is when you have only a million people to deal with.

But that $2 million or $3 million surplus is what we have got to fall back on between now and July 1, and last month's deficit, for example, in my State, based on projections, was $8 million short. That was the shortfall. Now how much of that—and if we have another shortfall like that this coming month, we are going to be in a deficit by the time we get to July 1.

And so please do not look at that surplus as something that makes it say that it is easy to turn back these programs. If the demand for services prevail, citizens are going to have to recognize, somehow or other, that they have got to pay for them, or that the cuts are going to have to come, and that I think is a real problem.

Politicians like myself, and everyone else, tend to talk about developing services, providing programs, and then do not talk about paying for them. That was obviously evident in the last campaign.

Past proposals I think need to be clearly looked at. My own personal feeling is that we need to look at the budget, we need to look at the deficit, and we, as an organization stand ready to work with you to see what we can do to cut and to make it as easy as possible on all of us.

If there is something that I want to leave also with you, and that is that the NCSL stands ready to work with the Budget Committee, and every other Member of the Congress, to try to play our role in meeting the bottomline. We do not, however, want to share disproportionately in the assets of this country.

MAKE CUTS EFFECTIVE WHEN LEGISLATURES ARE IN SESSION

Please keep in mind that legislative bodies around this country in the 50 States will have gone home by the time you enact the budget. October 1 is not our fiscal year. Most of us will have adjourned by July 1, except for four or five of the larger States.

We will not be back in session before January, and so if you enact, and when you enact these cuts, make them effective so that we are in session, and we can deal with them in the normal order of business.

It may mean a phasing out, it may mean perhaps adjustments, unless you could do it before we go home, but there are already two or three states that are already planning to adjourn their legislative session for the year as of today.

And once you have acted, then I believe State government will be more than happy to assist you. Again, thank you for allowing us the opportunity, and if I might just say in closing, please take care of the *Garcia* decision.

Chairman DOMENICI. Thank you very much. Fortunately that is one decision that we do not have to resolve here! We will refer your suggestions to the committee of jurisdiction.

[The prepared statement of Mr. Martin follows:]

TESTIMONY OF JOHN L. MARTIN

SPEAKER OF THE MAINE HOUSE OF REPRESENTATIVES

ON BEHALF OF THE

NATIONAL CONFERENCE OF STATE LEGISLATURES

BEFORE THE

SENATE BUDGET COMMITTEE

ON

THE PRESIDENT'S PROPOSED

FY 1986 FEDERAL BUDGET

FEBRUARY 21, 1984
DIRKSEN SENATE OFFICE BUILDING
ROOM 608
2:00 P.M.

Mr. Chairman and members of the Committee, let me begin by expressing my thanks for your allotting the time to listen to the views of myself and my distinguished colleagues on the panel. As fellow elected officials, we too find ourselves strapped for time, but cannot ignore the responsibilities we were elected to carry out. It would be very difficult to govern at any level should we fail to take heed of our constituents.

Mr. Chairman and the members of the Committee, I believe I do not have to reiterate to you the problems facing the federal government in attempting to move toward balancing the federal budget. I realize that a review of the spending totals, revenue estimates and deficit projections would be too much like preaching to the choir. So let me move directly into how the nation's state legislatures might react to the President's proposal. The budget as proposed attempts to keep total federal spendng at the FY 1985 level, except for net interest payments which rise by $12 billion. There is a major increase in defense spending with $32 billion more in outlays intended for FY 1986. In addition, social security benefits will increase by $11 billion over the current year's level. Due to these policy decisions and the desire to cut the projected deficit by some $50 billion - the only sector left to turn to for major reductions is in domestic aid. This sector is of the upmost importance to those of us in state and local government.

Compared to FY 1985 levels, aid to state and local governments is cut by nearly $7 billion in the proposal. When constrasted against the current services level for FY 1986, the proposed cutbacks amount $10 billion for that one year, and nearly $100 billion over the FY 1986 to FY 1990 period. Programs that are of major interest to state legislatures are: Medicaid where $1 billion

IS PROPOSED TO BE CUT AND THE PROGRAM'S GROWTH WOULD BE CAPPED FOR FUTURE YEARS; OPERATING SUBSIDIES FOR MASS TRANSIT WOULD BE TERMINATED; EPA CONSTRUCTION GRANTS ARE LEVEL-FUNDED FOR FY 1986 WITH THE PROGRAM SCHEDULED FOR PHASE-OUT BY 1990; AND THE ENTIRE GENERAL REVENUE SHARING PROGRAM WOULD BE TERMINATED. OTHER PROGRAMS OF GREAT INTEREST ARE: AGRICULTURAL CREDIT; CHILD NUTRITION; HOUSING, STUDENT LOANS, AND ECONOMIC DEVELOPMENT. I DO NOT NEED TO CONTINUE DOWN THE LONG LIST OF PROGRAMS SCHEDULED FOR CUTBACKS, REFORMS OR EXTINCTION. YOU ARE WELL AWARE OF THE PROPOSAL MADE AND ITS RECEPTION ELSEWHERE IN THE FEDERAL SYSTEM.

THE LIST OF PROGRAMS INCLUDED IN THE FY 1986 PROPOSAL SPEAKS DIRECTLY TO A MASSIVE SHIFTING OF RESPONSIBILITY FROM THE FEDERAL SECTOR TO THOSE OF US REPRESENTING STATE AND LOCAL GOVERNMENTS. MANY PROGRAMS THAT I HAVE JUST REFERRED TO ARE FEDERAL PROGRAMS ADMINISTERED BY THE STATE AND LOCAL GOVERNMENTS. THE BUDGET PROPOSAL REPRESENTS AN ATTEMPT TO PULL BACK FROM THE RESPONSIBILITY OF ADEQUATELY FUNDING THOSE PROGRAMS. MANY OF THESE APPEAR TO BE THE RESULT OF A MISUNDERSTANDING OF THE STATES' FISCAL WELL-BEING. WHILE, BETTER OFF THAN IN PAST YEARS, STATES ARE JUST NOW RECOVERING FROM THE DEEP RECESSION AND FEDERAL CUTS 2 YEARS BACK. STATES REACTED POSITIVELY THEN TO ADVERSE CONDITIONS AND ARE NOW ATTEMPTING TO GO ON AND ADDRESS MANY OF OUR UNMET NEEDS. THE CONSTITUENTS WHO BENEFIT FROM THESE PROGRAMS ARE CONSTITUENTS OF THOSE ELECTED TO ALL LEVELS OF GOVERNMENT. IF ADOPTED, THESE PROPOSALS WOULD PRODUCE A REACTION THAT WE CAN PROBABLY SEE IN OUR CRYSTAL BALL TODAY. TO MAINTAIN A ADEQUATE LEVEL OF SERVICES, STATE AND LOCAL GOVERNMENTS WILL HAVE TO TAKE ACTION VERY SIMILAR TO THAT TAKEN IN THE NOT-TOO-DISTANT-PAST. STATE AND LOCAL GOVERNMENTS WILL BE PRESSURED TO MAKE THE CHOICE BETWEEN PROVIDING LESS SERVICES AND RAISING TAXES. IF THE DEMAND FOR SERVICES PREVAILS, CITIZENS WILL RECOGNIZE HOW FEDERAL CUTBACKS ARE ULTIMATELY EFFECTING THEM.

The budget proposal evolves from a desire to reduce the deficit. This is a desire that we share and pledge to assist the Congress in facing the problem. However, past proposals of this magnitude have been coupled with a desire to sort through the various programs and to determine which level of government can properly and adequately meet the needs of a particular population. Past proposals have spoken to the need to increase the flexibility given to state and local governments to perform a given function, and to provide funding sources to meet these responsibilities. This year's proposal is devoid of such initiatives. This fund it or forget it budget will probably not go very far in promoting intergovernmental cooperation and efficiency in government.

Mr. Chairman and members of the Committee, on behalf of the National Conference of State Legislatures, I thank you for your time. We look forward to working with you this year and in the future.

Chairman Dominici. Senator Chiles has arrived. Senator, Governor Carlin has to leave at 3. I thought you might want to question him before he leaves; the other witnesses have no time constraints.

MOST STATES ARE CUTTING SPENDING AND RAISING TAXES

Senator Chiles. Thank you. Governor, we are delighted to have you here, and I am glad to see from your statement that you agree with fair spending cuts, and you also agree that perhaps we need some revenues in the package. You noted that states are only cutting taxes now because you took the political pain of raising taxes as well as cutting spending when you face deficits.

And I would like to know, if you do not agree that it is true, that when you are serious about balancing budgets, you often have to do both, cut spending and raise taxes?

Governor Carlin. That is true. Most states during the recessionary period were cutting and raising taxes, almost without exception. I would say forty of the fifty for sure were in that category.

Senator Chiles. My state did that.

Governor Carlin. And I would want you to know, personally, I am before the legislature right now with another tax increase because we are not participating in the recovery, and in order to put ourselves in a position to accommodate what we know you are going to do in further cutting, we have got to, once again, go back to the people and ask for more taxes.

Senator Chiles. That is it.

Chairman Domenici. Thank you very much. Thank you, Governor.

Mayor, we are delighted to have you here with us. Your prepared remarks will be made part of the record.[1] Please proceed as you see fit.

STATEMENT OF HON. GEORGE V. VOINOVICH, MAYOR OF CLEVELAND, OH, AND PRESIDENT, THE NATIONAL LEAGUE OF CITIES

Mayor Voinovich. Thank you, Mr. Chairman, members of the committee. My name is George Voinovich and I am the mayor of the city of Cleveland and president of the National League of Cities, the oldest and largest organization representing municipalities in the country.

I am testifying this afternoon on behalf of the 15,000 direct and indirect members of the National League of Cities, and I am here to testify on our top priority, and that is reducing our deficits.

I want to emphasize the use of the word "our deficits." At our league's annual meeting, the membership, just as the Governors, determined that deficit reduction was the top priority of this Nation's cities.

Like all of you, our members are elected, and like you, all of our governments are adversely affected by deficits.

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[1] See p. 121.

DEFICIT REDUCTION CAN BE MADE WITHOUT RAISING TAXES

The National League of Cities believes that a deficit reduction effort in excess of $70 billion can be made, and it can be made without shifting mandated responsibilities and new burdens to other levels of government.

It can be accomplished without forcing other levels of government to increase taxes on the American people.

How did we get here, or what has been the changing role of the Federal Government in cities over the last 5 years—which is one of the questions I think you asked us to respond to?

In 1980 we experienced a deficit of $59.6 billion. This year, the administration is projecting a deficit over $200 billion.

Yet in the intervening period, Federal assistance to State and local governments has been sharply cut back. City after city has raised taxes year after year to make up for these cuts.

The concept that assistance to State and local governments is somehow responsible for the current deficits projections is simply absurd. And so is the allegation that we are all sitting on surpluses and have been unwilling to raise our taxes.

Mr. Chairman, I believe that we have been part of the solution and not the problem during the last several years.

MAJOR URBAN PROGRAMS HAVE TAKEN 50 PERCENT CUTS

During the last 4 years, virtually all major urban programs have taken 50 percent cuts. Attached to our testimony is a paper entitled "Taxing Questions for Cities" and the chart comparing spending versus tax spending in key urban areas. So there is a chart that lays out just exactly what has happened during the last several years.

Economic development for example was cut 51 percent, housing 55 percent, employment and job training 69 percent. Because these cuts were commenced during the recession of 1981 and 1982, and because cities are required to submit balanced budgets on an annual basis, in the past 4 years almost all cities have raised local taxes and user fees while cutting employees and services.

Last month the Census Bureau came out with a report that showed a comparison of city revenues from 1979 to 1983 and it demonstrated that there was a 50-percent increase in local source taxes during that period of time. And that all of the increase in local expenditure occurred as the result of taxes raised at the local level.

I would like to just give you an example of Cleveland. In 1979, when I became mayor, we were receiving CETA funds and a lot of block grant funds, and in this period of time we have lost $39 million in CETA funds and $11 million in block grant funds.

We increased taxes twice from 1981 to 1985. As a matter of fact, we have had tax-related issues on the ballot six times in the last 5 years—successful twice and lost four times. In 1979 we were generating $134 million from local taxes. Today we are generating $196 million, a $62 million increase. During that same period of time, the State of Ohio increased taxes 90 percent. So, in our State, and you have already heard from some others, we are not sitting on any cushion. If there is any money, it is because we have raised our taxes and we have cut expenses.

PRIVATE SECTOR BECOMES INVOLVED IN SOLVING PROBLEMS

For example, I am operating the city of Cleveland today with 1,000 less employees than I did in 1979, and with a 12½-percent unemployment figure, and with a prospect of losing $14.3 million in revenue sharing. Things do not look so hot from my point of view.

I must add that during that period, our private sector has not stood on the sidelines. As you know, the President has urged the private sector to become much more involved in solving the problems of our local communities, and that has not been mentioned here.

But I would like to say that the private sector in Cleveland, OH, has done a marvelous job of stepping forward and doing something about the problems confronting our city.

That is the main reason, for example, we have been named an all American city twice in the last 3 years, because of the public-private partnerships that we have in our community. We lead the Nation in United Way per capita giving. Last year we raised almost $45 million for United Way in Cleveland, and the fact is that we are working hard to access all of the resources that are available to us.

Cleveland's great strength is that we have had the courage to be more self reliant than any time since the 1930's.

And I think we are typical of other cities in the country. We have taken more than our fair share of cuts, and have done more than our fair share in solving our own problems—many of us—and this is something that is really important—during the worst economic period we have experienced since the Depression—and the President is right: the economic recovery has been uneven.

As you know, we participated in the last several years in the President's New Federalism initiative, but much of it was rejected by Congress.

The New Federalism, as you recall, proposed creating block grants to states in consideration of their assuming Federal responsibilities over a variety of programs.

MOST OF THE FEDERAL GOVERNMENT'S ROLE IN DOMESTIC POLICY ABOLISHED

The administration's new initiative, as presented in this budget, abolishes, in our opinion, for the most part, the role of the Federal Government in domestic policy, and cuts most of our programs. And this is what bothers us: with no mention that they are worthwhile and must be funded by somebody. Now the reality is, that we must either make unthinkable cuts in our local jurisdiction, or increase taxes! And most of us, as I mentioned before, have already increased our taxes over 50 percent during the last several years, and in 80 percent of the cities across the country—and this is very important—80 percent of them have some kind of limitation on the number of dollars that they can collect locally.

And many cities throughout this country have already reached that level. Council Bluffs, IA, for example, has just been laying people off during the last 2 or 3 years.

There is no way that they can get any more money, and they are going to lose $750,000 of revenue sharing, and, you know, I do not know where they are going to turn.

In addition to that, as I mentioned, we only have, in most cities across the country—I am lucky we have an income tax—but most cities have only got the real estate tax. That is the only thing to which they can turn. I was in Columbia, SC, yesterday and we were talking about revenue sharing. They did a survey, their local municipal league, and they calculate that they are going to have to raise local taxes from 30 to 35 percent to make up for the loss of revenue sharing, if it is eliminated as proposed in the President's budget.

I do not really think that that is realistic.

FEDERAL TAX EXPENDITURES OUTSTRIP DIRECT FEDERAL ASSISTANCE

Finally, perhaps the most extraordinary change, over the past 4 years, is the extent to which the Federal urban policy has come to be dominated by Federal tax policy, and I think this is the hidden item here that needs to really be brought on the table.

On almost every major urban issue, Federal tax expenditures have far outstripped direct Federal assistance. This means two things: one, cities have far less control over the use of Federal benefits in their cities, and two, the Internal Revenue Service, the House Ways and Means Committee, and the Senate Finance Committee have the key roles in what is happening to cities from the Federal policy perspective.

It is interesting to note, for instance, that last year the Treasury estimated that the deficit was increased some $1.2 billion due to mortgage interest deductions taken by Americans to purchase vacation homes.

That amount would automatically increase under the President's new budget proposal, in sharp contrast to the virtual elimination of all housing assistance for low and moderate income Americans. Now I do not know how you balance those two things together. I asked one of your colleagues yesterday how you can cut the $4.6 billion revenue sharing program and let $1½ million slip out of the Treasury by giving people deductions for interest on mortgages they pay on their vacation homes. Or, as the Wall Street Journal reported last week, menu prices for business lunches in Manhattan are skyrocketing. They asked the restaurant owners about whether their customers were concerned. Their response was they have not had any objection whatsoever. The customers don't even look at the prices; they buy a $275 lunch in Manhattan and deduct it as a business expense.

These are the kinds of issues, I think, that when you're talking about the cuts in only one-third of the budget, need to be looked at very carefully. Because, very frankly, they really don't make very much sense to the American people. And as time goes on, more and more of this information is going to get out on the street.

ADMINISTRATION BUDGET IS PARADOXICAL

Now, let's talk about the defense budget. When I was in South Carolina yesterday, I said that the defense budget went from $128 billion in 1979 to a proposed $322 billion in 1986. And I just had said a breath before that they're talking about eliminating the $4.5 billion Revenue Sharing Program.

And honestly, you could see a ripple and stir going through the people that were in that room, and the reason for it was—they just shrugged their shoulders and said, "It doesn't make sense."

What we're talking about here is fairness, and equity. I think the administration budget—and I think this is the nicest thing I can say—is paradoxical.

You are going to have to sift through it and make some sense out of it. And I know it's not going to be easy for you.

I'd just like to conclude in this next couple of minutes by sharing a couple of items with you. One, you might be interested in knowing——

Chairman **Domenici**. Have the mayors visited the President yet?

Mayor **Voinovich**. Yes; we were in to see him with the Speaker and with the Governor back December 10, and I don't think anyone was listening.

Senator **Metzenbaum**. George, I'm upset as I sit here. You're stealing all of my campaign material, making my speeches. Slow it down. [Laughter.]

Mayor **Voinovich**. I certainly don't want to do that, Senator Metzenbaum.

Chairman **Domenici**. Go ahead, Mayor.

PROPOSED BUDGET WOULD COST CITY ABOUT $170 MILLION

Mayor **Voinovich**. I just want to go into a little about the impact of this budget on my city. This is kind of conservative, but this budget proposal, if it passes, is going to cost us about $170 million. $85 million in direct programs that come into the city for UDAG, for revenue sharing, for EDA and for a lot of other programs—and mass transit's about $26 million of it.

And the other half of it—and that's what is not being talked about—is doggonit, a leverage investment at the local level. That's the other half of the money that we're going to lose.

Senator Metzenbaum knows that we have a little renaissance and recovery under way in Cleveland, even though we've had bad times; we've worked hard and we're coming around.

But I can tell you that $170 million hitting Cleveland would be like a tornado coming through. And this renaissance and recovery that we're experiencing will come to a screeching halt if this budget is passed the way it's been proposed by the administration.

Senator **Metzenbaum**. Can you furnish the committee with a breakdown of that $170 million?

Mayor **Voinovich**. Yes, sir.

[The following was subsequently supplied for the record:]

Nation's Cities Weekly February 25, 1985

How Reagan budget impacts on City of Cleveland

by Linda R. Woodhouse

The City of Cleveland is one of the nation's cities which appears to have been left behind by the general recovery from the 1981-83 recession.

High unemployment and structural economic changes continue to pose serious problems.

Cleveland's Mayor George V. Voinovich in Senate budget hearings last week characterized the uneveness of the recovery as follows: "The places left behind tended to be those areas of the country whose transition has been most difficult as the economic base of the nation undergoes widespread structural change.

"The people left behind, usually concentrated within the central city, are the poor, the aged, the unskilled, and often the unemployed workers to which have been added skilled but structurally unemployed persons . . ."

Voinovich said that despite federal cuts in major urban programs of 50 percent in the last four years, Cleveland has done more than its fair share in working to solve its own problems, specifically citing public/private partnerships.

However, he pointed out that slow local revenue growth and tax limitations present serious obstacles to the capacity of cities to accept new burdens proposed by the President's fiscal year 1986 budget.

Metropolitan Cleveland's unemployment rate hit 11.4 percent in 1983 and is now down to nine percent. That's compared to five percent in 1979.

However, the most telling employment statistic is that in 1980 there were 937,000 workers in the job market, today there are 910,000. City officials attribute that decrease to workers who have become discouraged and are no longer looking for jobs, or workers who have moved to other areas to seek employment.

There has also been "a substantial increase in general relief" to Cleveland area residents, said Don Plaskett, an executive assistant to Mayor Voinovich. In 1981, 17,855 households received general relief, a program administered by Cuyahoga County. In 1984, that had increased to 35,130.

Plaskett said many new general relief recipients are "those who are falling out of the labor market."

Another way to measure the stress on a community is the length of soup kitchen lines. Plaskett said the Greater Cleveland Inter-Church Council, one of three groups in the Cleveland area that feeds those in need, served 17,205 in December 1981 and 57,886 in December 1983. Plaskett said the December 1984 figure, which was not available, would be comparable to the 1983 number.

Similar summer month figures—when soup lines are traditionally shorter—were 11,830 for July 1981 compared to 51,901 for July 1984.

Before 1982, Plaskett said, "few if any" of those in soup lines were children. Today, about 40 percent are children.

About 50 percent of the people being served by the Inter-Church council's pantry program are also children. The program provides three days of emergency groceries to individuals and families in need.

"Today we are operating [illegible] with 1,000 fewer employees (down from 9,200 to 8,200). With 12 percent unemployment figures and the prospect of losing $14 million in [illegible] year, things don't look good," Voinovich, president of the National League of Cities told the Senate Budget Committee last week. (See story on [illegible] 1.)

Revenue sharing funds are expected to make up [illegible].6 percent of Cleveland's $2[illegible] million General Fund budget [illegible] 19[illegible]. GRS funds are used to support basic city services, including police protection and garbage collection.

"Elimination of this program would force Cleveland to reduce critical services by the equivalent of 523 positions," according to an analysis of the impact of the budget cuts prepared recently by Cleveland city officials.

"As an alternative, we would have to request a 10 percent increase in our local income tax to fill this void," the analysis stated. "Considering two voter rejections of tax hikes within the past year, this option is probably impossible to explore."

Here is how other budget cuts proposed by the Reagan Administration will effect Cleveland (p. 573,822):

Economic Development

Altogether, Cleveland has received $34.775 million in Urban Development Action Grants (UDAG) which has generated $171.5 million in investments. Because of UDAG, 4,500 jobs have been retained and another 2,500 have been created.

Based on funding received in the last two years, discontinuation of UDAG "would cost the city some $15 million in UDAG funds annually, as well as the loss of $75 million per year in total new investment and some 3,200 jobs annually," according to the report.

The elimination of the Small Business Administration's (SBA) 503 program would cost the city about $1.3 million annually in new project investment among small businesses and about 137 jobs per year. Since 1983 Cleveland has received $1 million under the 503 program which resulted in the retention of 150 jobs and the creation of 125 jobs. In addition, the city received $1.5 million through other SBA programs during that time.

Under the Section 108 loan guarantee program of the U.S. Department of Housing and Urban Development (HUD), the city has spent $600,000 in the last year, which has generated about $1.2 million in total project investment. Those expenditures have created 125 jobs. Additional investments and jobs would be lost if the program is cut.

If the Economic Development Administration (EDA) is eliminated, as proposed in the president's budget, the city would lose $70,000 annually for economic development planning. In addition, the city would have to do without money from the Title IX program. About $750,000 in loans under that program spurred the investment of $5.25 million and the creation or retention of 350 jobs in the last year.

In addition, Cleveland received $6 million through EDA the last two years for infrastructure improvements including the development of two industrial parks and [illegible] business [illegible]. Loss of those funds would lead to the loss of nearly 900 [illegible] estimates from the Cleveland Economic Development Department.

Community Development and Housing

"Placing a moratorium on all new federal housing subsidies would severely limit the ability of cities to meet their housing needs," the report stated. Cleveland could expect to lose funding for seven different housing programs—a total of $1[illegible] million annually in all. (See accompanying chart.) When private investment leveraged by public funds for [illegible] the programs is included, that increases to [illegible]20 million.

As for the Community Development Block Grant, "continuation of the block grant is essential to the ongoing revitalization of cities such as Cleveland," according to an analysis from officials in Cleveland's Department of Community Development. "The importance of the block grant extends far beyond the value of the $29 million a year we currently receive."

One of the reasons is because Cleveland has been able to leverage private investment of at least $1.50 for every $1 of CDBG money spent. (See accompanying chart.) The administration has proposed a 10 percent cut in the overall program. When combined with a shift in the allocation formula that will result, Cleveland could lose $6.7 million (or 23 percent) of its CDBG money.

Mass Transit

The administration has proposed a 69 percent cut in mass transit funding. Elimination of operating assistance would mean the Greater Cleveland Regional Transit Authority (GCRTA) would lose $11 million per year out of a total operating budget of $130 million. Such a loss "would have a significant impact," the report stated.

If Section 3 discretionary grants are eliminated, GCRTA would stand to lose $5 million to $20 million per year.

If funding is reduced for the Section 9 formula grants for capital improvements, the GCRTA will lose $4 million to $5 million per year. An increase in the local match from 20 percent to 30 percent will mean a 30 percent increase in items such as buses for the transit authority.

Nutrition

The administration's budget includes a $100 million reduction in the WIC (Womens, Infants and Childrens) nutrition program next year. The program is designed to provide juice, cheese, milk, eggs, cereals, and other commodities supplements to those at risk. With the reduction of those funds, and the possible cut in the $4 million used for WIC from the Job Training Partnership Act, Cleveland may have to reduce its caseload from 22,800 to 17,000 over the next year.

"WIC has been called, even by its critics, the most cost-effective nutrition program currently in place," the report said. "Probably the most telling aspect of WIC is that it is a street level program which provides the "right" foods to those who need them—pregnant women and failure-to-thrive children. This is a safety net program," the report stated. ☐

LEVERAGING IMPACT OF CDBG FUNDS IN CLEVELAND

Program/ Project	CDBG Funds (millions)	Private Investment (millions)	Private/ CDBG Ratio
Cash	2.8	5.6	2/1
Section 8 Moderate Rehab.	——	——	3/1
Lexington Village Housing Development	1.0	10.0	3/1
Chester Village Housing Development	.2	2.6	13/1
Small Business Loans	.4	2.6	6.5/1
Storefront Renovation	——	——	3/1
Commercial Assessment	.1	.35	3.5/1
Commercial Strips	.3	1.9	6.5/1
Midtown Industrial Park	4.7	10.5	2.2/1
Lee-Seville Industrial Park	.5	1.5	3/1
Match for Other State/Federal Funds	1.9	12.6	6.6/1
Third Party Social Service/Housing Groups	4.0	29.0	7/1

CLEVELAND PUBLIC HOUSING LOSSES

Program	Funding (millions)	Units of Housing
Section 202	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Public Housing Modernization	[illegible]	[illegible]
Section 312	[illegible]	[illegible]
Section 8 Moderate Rehab.	[illegible]	[illegible]
Section 8 Existing Housing	[illegible]	[illegible]
	[illegible]	[illegible]

LOOK AT THINGS AS A TOTAL PACKAGE

Mayor VOINOVICH. The last thing I'd like to say is this: That cities believe that in major functional areas, No. 1, all items should be on the table. An understandable urban policy that ties everything together would help make sense out of the patchwork of programs.

I think you've got a tremendous opportunity today in Washington because of the large deficit to really look at some things as a total package for the first time. You've got an excuse to do some things that maybe you couldn't do before, because, the fact is, the deficit is so high that you can—from a political point of view—maybe use that as an excuse to do some of those things. Because you've got everybody out there lobbying.

In other words, the revenue losses from tax benefits for housing, the Federal credit programs for housing, and the FMHA and HUD programs should be considered jointly so that budget decisions affecting the deficit are made on public policy grounds.

Now, for example, you're talking about enterprise zones, the tax loss associated with that should be put on the table with the proposal to eliminate the Urban Development Action Grant Program. Look at both of those programs.

And second, the National League of Cities offers these three suggestions on what you ought to be doing between now and when you try and look at this thing when you've got a little more time to do it.

FREEZE ACROSS THE BOARD SUGGESTED

We suggest a freeze across the board, except for interest on the debt and means-tested entitlement programs. And we're talking about freezing Social Security, defense, and tax expenditures.

Now, the tax expenditure side is difficult because it's hard to get a handle on what that is. That was the point I was trying to make earlier. But we would be willing to support that action on your part.

Last year, the House Democrats, and this winter, the House Republicans, have suggested the concept of requiring tax increases to pay for any spending increases. So if you freeze everything, and the President wants to spend more money on defense, let's raise the taxes.

I mean, that's what we do on the local level. We look at our budget, and, if the people want more services, we go out and say if you want them, we'll have to raise the taxes to support them.

And I think that would be the answer to those who say we want more money. Fine. You can have it, but we're going to have to increase the taxes to pay for it.

I don't envy your responsibility. On the other hand, Senators, I've been in your shoes 5 years in a row. And I think it's time that all of us, on the local, State, and Federal level, faced up to the situation.

Thank you.

[The prepared statement of Mayor Voinovich follows:]

STATEMENT

OF

GEORGE V. VOINOVICH, MAYOR OF CLEVELAND, OHIO

AND PRESIDENT OF

THE NATIONAL LEAGUE OF CITIES

FEBRUARY 21, 1985

Good afternoon, Mr. Chairman, and members of the Committee. My name is George Voinovich. I am the Mayor of Cleveland and the President of the National League of Cities, the oldest and largest organization representing municipalities in the country. I am testifying this afternoon on behalf of the 15,000 direct and indirect members of our organization.

I am here to testify on our top priority: reducing deficits. I want to emphasize the use of the word our. At NLC's annual meeting, the membership determined that deficit reduction was the top priority of the nation's cities. Like you, all of our members are elected, and, like you, all of our governments are adversely affected by deficits.

The National League of Cities believes that a deficit reduction effort in excess of $70 billion can be made--and it can be made without shifting mandated responsibilities and new burdens to other levels of government. It can be accomplished without forcing other levels of government to increase taxes on the American people.

How did we get here, or, what has been the changing role of the federal government and cities over th last five years?

In 1980, we experienced a deficit of $59.6 billion. This year, the administration is projecting deficits over $200 billion. Yet, in the intervening period, federal assistance to state and local governments has been sharply cut back. City after city has raised taxes year after year to make up for these cuts. The concept that assistance to state and local governments is somehow responsible for the current deficit projections is simply absurd.

During the last four years, virtually all major urban programs have taken 50 percent cuts (see attached paper on Taxing Question for Cities and the chart comparing spending versus tax spending in key urban areas).

Because these cuts were commenced during the recession of 1981-2 and because cities are required to submit balanced budgets on an annual basis, in the past four years almost all cities have raised local taxes and user fees, while cutting employees and services.

At the same time, as more and more families have fallen through the safety net, cities have become the place of last resort.

For example, since 1979, when I became mayor of Cleveland, we have lost about $39 in CETA funds and $11 million in Block Grants, and have increased taxes twice between 1981 and 1985. As a matter of fact, we have had tax-related issues on the ballot six times in the last five years. During this same period, Ohio has increased state taxes 90 percent.

Today, we are operating a city with 1,000 fewer employees. With a 12 percent unemployment figure, and the prospect of losing $14 million in revenue sharing next year, things don't look so hot.

I must add that during this period, our private sector has not stood on the sidelines. There isn't a city in this country where the private sector is doing more to help. In the last three years, we have twice been named an All-America City, specifically for our public/private partnerships, and Cleveland leads the country in per capita giving to the United Way. Last year we raised about $45 million.

Syndicated columnist Neal R. Pierce had this to say about Cleveland's public/private partnerships:

> "If any town ever labored heroically and against odds, it must be Cleveland. A broad coalition of Clevelanders, rising above petty jealousies, finally coalesced to take control of their collective destiny. Politicians and businessmen, neighborhood and civic organizations, banded together. This country, at its grass roots, can still work magnificantly well."

Cleveland's great strength is that we have the courage to be more self-reliant than at any time since the 1930's.

Cleveland is typical of many cities in this country. We have taken more than our fair share of cuts, and have done more than our fair share in solving our own problems--many of us during the worst period we have experienced since the Depression.

As you know, we have participated in the last several years in the President's New Federalism initiative though much of it was rejected by Congress. New Federalism, as you recall, proposed creating block grants to states in consideration of their assuming federal responsibilities over a variety of programs.

The administration's new initiative, as manifested in the budget proposal, cuts all of our programs with no mention that they are worthwhile and must be funded on a local level.

To make matters worse, the Administration is proposing to repeal the deductibility of state and local taxes, which would severly hinder our ability to raise local revenues.

Finally, perhaps the most extraordinary change over the past four years is the extent to which federal urban policy has come to be dominated by federal tax policy. On almost every major urban issue federal tax expenditures have far outstripped direct federal assistance. This means two things: one, cities have far less control over the use of federal benefits in their cities, and two, the Internal Revenue Service, the House Ways and Means Committee, and the Senate Finance Committee have the key roles in what is happening to cities from the federal policy perspective.

It is interesting to note, for instance, that last year the Treasury estimated that the deficit was increased some $1.2 billion due to mortage interest deductions taken by Americans to purchase vacation homes. That amount would automatically increase under the president's ew budget proposal, in sharp contrast to the virtual elimination of all housing assistance for low and moderate income Americans. Where, and how, are we going to find the resources locally to provide housing for low and moderate income Americans?

The Administration's budget is paradoxical. You are going to have to sift through it and make some sense out of it.

What is the impact of the President's FY 1986 budget proposal on cities? And, do we have the capacity to respond?

While cities across the nation have risen to accept these new burdens and responsibilities over the last four years, we are confronted with a serious obstacle to accepting any more. Eighty percent of cities have one or another type of statewide tax limit. Moreover, there is a direct correlation between slow local revenue growth and state imposed tax limits. Those cities with the slowest local revenue growth are those laboring under the burden of state imposed tax limitations.

What this means, Mr. Chairman, is that many cities, especially those in the most precarious fiscal situations, will be unable to help themselves or the citizens in greatest need.

As the president stated, Mr. Chairman, the economic recovery has been uneven. We have cities in Texas still reeling under double-digit unemployment. Now those same cities are experiencing further burdens from the drop in oil prices and the influx of illegal immigrants.

Cities in Florida are caught by the influx of refugees--all in need of health care, nutrition, and shelter.

In Portland, Maine, despite a seemingly low level of unemployment, local welfare rolls are exploding. Welfare costs in Portland have risen from a city cost of $700,000 in fiscal 1981 to a projected level of over $5 million for fiscal 1986. That is a 700 percent increase--an increase which does not even take the President's proposed cuts into account. For each and every one of the past five years Portland has raised its taxes.

I have already discussed with you what we have done in Cleveland over the past four years and our limited capacity to respond to further cuts.

It's obvious that cities have very uneven revenue capacities to assume these severe proposed cuts. Cities would be expected under the budget to perform substantially greater roles--but with substantially reduced resources. While cities with strong revenue bases--that is with no unemployment, no poverty, and no tax limitations--might be able to make one adjustment; many cities--especially rural and inner cities already experiencing declining revenue bases--simply have reached their limits.

The question you must answer is: are we going to abandon the cities and towns to their own resources? Is it fair to dump the deficit-cutting into the laps of cities without consideration of their capacities to respond?

I have already pointed out we are not responsible for the deficit considering you are spending less on our programs than in 1979.

How can you cut a $4.6 billion revenue-sharing program, which has been frozen since 1972 and has proven to be a remarkably efficient mechanism that targets proportionally more assistance to less affluent communities, while at the same time rewarding jurisdictions making the greatest effort to meet the public service needs of their residents with their own local taxes.

How can you cut revenue sharing and not cut defense spending, which has doubled between 1979 and 1984, rising from over $128 billion to $265 billion and is being proposed in this budget at a level of $322 billion, a 152 percent increase over 1979 levels.

How can you consider cuts in our programs without paying attention to the tax expenditure side of the budget, which allows mortgage interest deductions on vacation homes and, as reported recently in the Wall Street Journal allows tax-deductible $275-a-plate luncheons in Manhattan.

Fair is fair.

The real question you have to decide is the one the Administration's budget begs: Should the United States of America in 1985 have a national urban policy? My answer is yes.

Prior to Jim Baker leaving the White House, I sent him a paper urging the Administration to adopt a national urban economic recovery program. I now quote from that paper:

"The policies followed during the first term of the Reagan Administration were successful in reducing inflation, stimulating economic recovery, and restoring national pride and confidence. While the general recovery benefits many parts of the nation, high unemployment and deteriorating economic conditions continue to characterize many of the nation's cities. Simply stated, the recovery has been uneven. Indeed, a number of urban places, and some of the people in these places, appear to have been left behind.

"The places left behind tended to be those areas of the country whose transition has been most difficult as the economic base of the nation undergoes widespread structural change. The people left behind, usually concentrated within the central city, are the poor, the aged, the unskilled, and often the unemployed workers to which have been added skilled but structurally unemployed persons. The challenge of the second Reagan term is to reach back into these places to fill the gaps and provide mechanisms which can help underpin local efforts to redirect public and private investment to better fit the realities of the changing economy.

"To help bring cities undergoing structural change to participate in the recovery makes good economic sense. The nation's cities represent the tangible product of a tremendous past resource investment. This investment, in houses and schools, offices and factories, churches and parks, should not be casually discarded, while we duplicate such development in the nation's fields, forests and deserts. A nation confronted with scarce resources must preserve and build upon its existing investment in productive capacity.

"Investment in our existing but under-utilized urban places will yield far greater benefit to the national economy than would the abandonment of those resources. Unproductive, economically dependent people sap the nation's economic strength. The challenge is to enable such people to become productive and self-sufficient citizens; individuals who share in the benefits of the private economy and therefore, add to the nation's capacity and strength.

"Should we fail to address the problems of the people and the places left behind, we would bequeath to our children and to our children's children a diminished national birth rate; a legacy of once-great cities whose wealth and productive capacity have been squandered. In addition our children will inherit responsibility for the support of yet another generation of dependent citizens unable to either to contribute to society or fend for themselves.

"To address the problems of people and places left behind, a thoughtful approach is needed--one which combines economic pragmatism with a sensitivity to the suffering of those in need. We must examine the panoply of programs which have been developed over the years to address these problems, and strengthen those which have been effective in setting aside, or redirecting, those which have proven to be ineffective.

"It is essential, however, that we be willing to carefully reexamine existing policies and challenge closely held assumptions which have not produced measurable results in the practical application."

Mr. Chairman, I urge you and the Members of your Committee to examine the panoply of programs which have been developed over the years to address these problems, and strengthen those which have been effective in setting aside, or redirecting, those which have proven to be ineffective.

If after examining the programs, you decide there is not a need for a Federal role, then for God's sakes tell us, and at least give us the time to try and adjust and build capacity.

In the meantime, we offer these three suggestions to take care of the immediate problem with the budget and the deficit.

First, a freeze across the board, except for interest on the debt and means-tested entitlement programs, could reduce the FY 1986 deficit by over $70 billion if it included Social Security, defense, and tax expenditures. That is considerably more than the goal enunciated by Federal Reserve Chairman Volker, and would be much more fair.

Second, cities believe that in the major functional areas of the budget affecting cities, all items should be on the table. An understandable urban policy that ties everything together would help make sense out of the patchwork of programs. In other words, the revenue losses from tax benefits for housing, the federal credit programs for housing, and the FmHA and HUD programs should be considered jointly so that budget decisions affecting the deficit are made on public policy grounds. The tax losses associated with urban enterprise zones should be put on the same table as the proposal to eliminate Urban Development Action Grants.

Third, last year the House Democrats, and this winter the House Republicans, have suggested the concept of requiring tax increases to pay for any spending increases. We, as cities, already incorporate that in our budget processes. We think it is a commendable idea. It is one we would support.

Thank you for the opportunity to present some of the concerns of my and other cities before the committee. I appreciate your dilemma and hope that the nation's cities can work with you in your efforts.

A TAXING QUESTION FOR CITIES

To tax or not to tax. So goes the question of 1985 for the nation and the nation's cities.

And as the 99th Congress and the Reagan administration ponder the 6th major tax bill in 5 years, municipal leaders will watch this process with more than usual apprehension.

Whatever this latest massive change of the federal tax code will be called, it will impact the ability and authority of cities to raise revenues to meet their own needs, responsibilities and priorities.

Perhaps more seriously, however, city leaders, in increasing numbers, are realizing that the federal Treasury and Internal Revenue Service have come to dominate federal urban policy, virtually preempting other federal cabinet agencies. Similarly, in the Congress, the Senate Finance and House Ways and Means Committee have inadvertently become the preeminent urban policy makers in the fields of housing, economic development, transportation, energy, employment, health, income security, infrastructure, and municipal fiscal stability.

How has this evolution happened?

In the past few years, the enormous federal deficit stretching out seemingly forever has led the administration and Congress to reduce or freeze virtually all assistance programs to cities. Thus, housing, community and economic development, and wastewater sewage treatment grant programs have been cut substantially. Federal assistance for low income housing construction has been virtually eliminated. Other programs, such as General Revenue Sharing, have been frozen at 1976 nominal levels. In other words, measured in real dollars, GRS payments made to cities in 1984 are worth less than 50 percent of the amounts received in 1976. The actions of the administration - seeking deep cuts in domestic programs - and the Congressional process - authorizations, budget resolutions, and appropriations mean that every direct assistance program to cities is under intense scrutiny and must overcome at least four obstacles (President's budget, first Congressional budget resolution, authorization action, and appropriations).

With these reductions in both nominal and real dollars, there is less and less of a policy making role for cabinet agencies and Congressional authorizing committees. For instance, when the administration proposes to eliminate all funding for a program such as EDA, the U.S. Commerce Department gives up much of its ability to direct federal municipal economic development policy. Likewise, as Congress has agreed to severe reductions in a program such as EDA, relevant Congressional authorizing committees (Senate

Environment and Public Works, House Public Works and Transportation) have a relatively reduced role in setting municipal economic development policy. The fewer the dollars available to assist economic development in cities, the more reduced the role of these committees becomes.

In contrast, provisions in the internal revenue code which provide incentives for certain kinds of investment undergo little scrutiny. They are immune to policy considerations from the appropriate federal agencies and Congressional committees. They are immune to the Congressional budget process.

Except in rare instances, tax incentives, or federal tax expenditures become indexed entitlement programs. That is, once a provision creating a certain kind of tax incentive is inserted in the code - such as, for instance, the mortgage interest deduction - the value of the revenue loss to the federal treasury is not subject to any policy review by HUD or the House or Senate Housing Subcommittees. The value is not subject to concurrent budget resolutions. The value is not subject to the congressional appropriations process. Moreover, because it is built into the tax system, it is a value which grows significantly faster than inflation.

Both in the federal and Congressional budget process direct spending programs are segregated from tax revenues. Thus, when the federal government makes its annual budget review in preparation for the submission of the president's budget, the housing and commerce portion of the budget provides review only of the HUD and Farmer's Home Administration direct assistance program. That portion of the budget does not include the myriad of provisions in the tax code to benefit housing, such as single-family mortgage revenue bonds, multi-family rental housing bonds, accelerated depreciation, rehabilitation tax credits, mortgage interest deductions, capital gains deferrals for principal homes, etc. Similarly, when the House and Senate budget committees consider the housing function, they review only those direct spending and, in some cases, credit programs under the jurisdiction of the respective House and Senate housing subcommittees. Neither the Housing subcommittees, Budget committees, nor Appropriations committees have any jurisdictional review over the tax-related housing expenditures.

The federal Treasury and Congress' tax writing committees - originally charged with revenue raising responsibilities - have evolved into entities with much greater power than any other entities. These are powers they jealously protect. They adhere to the Biblical prescription: It is better to give than receive.

What Does It Mean?

Heretofore, entering the tax arena has been mostly dedicated to sophisticated tax attorneys and wealthy invest -s. Indeed, tax

incentives are only successful to the extent that an individual finds that a tax benefit has greater advantages than a non-tax motivated investment, and that the investor has enough surplus disposable income to make such an investment.
Cities have not consciously sought to use the tax code in the past for major urban programs. They have, for the most part, treated the internal revenue code as more complex than the evolution of modern mathematical theory written in Greek.

City officials have assumed that federal urban policy is the job of HUD and the House and Senate Banking and Urban Policy Committees to set. They have assumed that when federal housing policy is determined, annually, that all federal elements are thrown into a large mixing bowl - out of which is fashioned a carefully crafted public policy.

Yet, the opposite is increasingly the case. Every year, a smaller and smaller percentage of federal housing program elements go into the mixing bowl. Every year a significantly greater percentage of federal housing expenditures are withheld from the mixing bowl. It is not unlike trying to bake a cake without sugar, flower, milk, or eggs. The salt and vanilla do not go very far.

(italics)
Consider an example. The U.S. Treasury has estimated that in 1984, federal housing tax expenditures for the mortgage interest deduction for vacation homes equalled $1.2 billion.

Yet, there is no evidence that anyone at HUD reviewed that expenditure and recommended that part of federal housing policy be to allocate $1.2 billion of assistance to Americans who could afford vacation homes. Similarly, no committee in Congress held hearings to determine if - at a time when cities are faced with a growing problem of housing the homeless - it was appropriate to provide these families, who can afford a second home, with this large a level of assistance - a level, moreover, which has grown annually in every year without any review by any committee at the very time when the current administration and Congress have said time and time again that the federal government must take drastic action to reduce federal assistance for housing.

As the role of direct assistance and policy making has declined, the role of tax policy and its impact on cities has become proportionately greater. This is a pattern, moreover, which is unlikely to change.

With the recent revelation by David Stockman, President Reagan's Budget Director, that federal deficits are not going to simply melt away in the face of a growing economy, there will be more intense pressure to make major reductions in domestic spending.

Indeed, with the largest non-means entitlement program held harmless, the Pentagon seeking a $31.2 billion increase over FY,85, and with interest payments on the federal debt increasing at the most rapid rate (estimated at $165 billion for FY,85), and the president pledged not to increase taxes, in order to make even a partial reduction of the nation's deficits would require cuts at least twice as large as Congress enacted in 1981.

By attempting to further reduce the federal government's role in direct spending, without any change in the tax revenue it collects, the tax system becomes the dominant factor in shaping not only intergovernmental relations, but the shape of cities in the future.

TAX EVOLUTION ON KEY URBAN ISSUES

	Direct Assistance (in millions)		Tax Expenditures (in millions)	
I. Economic Development:[1]				
1979	$ 2,377		$ 585	
1984	$ 1,173	(- 51%)	$ 2,155	(+ 268%)
1986 request	$ 0	(-100%)	$ 2,880	(+ 392%)
II. Housing:[2]				
1979	$ 30,334		$28,300	
1984	$ 13,564	(- 55%)	$60,760	
1986 request	$ 6,103	(- 80%)	$67,170	(+ 137%)
III. Jobs:[3]				
1979	$ 11,694		$ 15	
1984	$ 3,583	(- 69%)	$ 1,015	(+6667%)
1986 request	$ 2,869	(- 75%)	$ 290	(+1833%)
IV. Pollution Control:[4]				
1979	$ 5,415		$ 415	
1984	$ 2,825	(- 48%)	$ 1,330	(+ 220%)
1986 request	$ 2,895	(- 47%)	$ 1,400	(+ 237%)
V. Fiscal Assistance:[5]				
1979	$ 7,150		$16,300	
1984	$ 4,574	(- 36%)	$31,630	(+ 94%)
1986 request	$ 0	(-100%)	$34,140	(+ 109%)
VI. Energy:[6]				
1979	$ 450		$ 825	
1984	$ 490	(+ 9%)	$ 1,395	(+ 41%)
1986 request	$ 217	(- 51%)	$ 835*	(+ 1%)
VII. Defense:				
1979	$127,915			
1984	$265,160	(+107%)		
1986 request	$322,205	(+252%)		
VIII. Social Security:				
1979	$100,419			
1984	$178,512	(+ 78%)		
1986 request	$207,007	(+106%)		

IX. Tax Expenditures:

1979	$200,035	
1984	$321,995	(+ 61%)
1986 request	$383,175	(+ 92%)

X. Public Transportation:[7]

1979	$ 2,361	
1984	$ 3,638	(+ 54%)
1986 request	$ 1,100	(- 53%)

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[1] This includes the National Development Bank, EDA, Local Public Works, Rural Development and Business Assistance, the revenue loss associated with the issuance of small issue industrial development bonds for the tax expenditure side.

[2] This includes a) direct: public, subsidized, rural rehabilitation, and credit programs and b) tax: housing bonds, mortgage interest deductions, property tax deductions, expensing, depreciation, deferral of capital gains and carryover, and rehabilitation and historic tax credits.

[3] This includes a) direct: CETA, and Employment and Training Assistance and b) tax-targeted jobs credit.

[4] This includes a) direct: wastewater construction grants and hazardous waste assistance and b) tax: pollution control bonds.

[5] This includes a) direct: General Revenue Sharing and targeted fiscal assistance and b) tax: exclusion of interest on G.O. bonds and the deductibility of state and local taxes, except on owner-occupied homes.

[6] This includes a) direct: energy conservation, schools and hospital programs, weatherization, b) tax: energy facility IDBs, residential energy credits, and alternative energy credits.

[7] This includes discretionary, capital, and operating assistance grants, including the dedicated gas tax trust fund for transit capital enacted in 1982.

*assumes expiration of tax credits December 31, 1985

Chairman DOMENICI. Thank you very much, Mayor.

Senator METZENBAUM. Mr. Chairman, I wonder if I could ask the mayor a few questions, because I do want to go back to the floor.

Chairman DOMENICI. Sure.

Senator METZENBAUM. Thank you.

Chairman DOMENICI. Senator Metzenbaum, what's going on on the floor—before I agree? [Laughter.]

I thought the mayor said everything you were going to say.

Senator METZENBAUM. Well, as a matter of fact, I will say he said many of the things that I have said. One of his comments, I might say, I made in a speech previously. That is that, "We have reduced housing aid for the poor and the elderly, but we haven't paid the same attention to the interest deduction for vacation homes."

I think he just stole that directly from one of my speeches. I know what he does. [Laughter.]

Chairman DOMENICI. You're not from Florida. That's why you feel that way.

Go ahead, Senator.

TARGETED ECONOMIC DEVELOPMENT PROGRAM RECOMMENDED

Senator METZENBAUM. Mayor, in your written statement, you refer to the limited capacity of cities to respond to further cuts, particularly those cuts in cities like Cleveland with 12-percent unemployment and increasing demands for human services. As you well know, I share your concerns.

But, I'm wondering how the National League of Cities responds when some mayors turn around and say:

> No problem, we can absorb these cuts. We'll introduce some user fees. We'll let business take over some municipal services. We'll get sponsors for everything from pothole repairs to city recreational services. We can make up the shortfall by just tightening our belts and managing the city like a business.

Now, as you well know that's somewhat of a paraphrase of what Mayor Buckey Reinhart of Columbus said when he said he could handle the budget cuts and cover $7.2 million of the $11.4 million projected cuts by increasing user fees and changing EPA regulations and privatizing municipal services.

How do you respond to that, and is he just speaking on his own? How do the cities feel generally about that kind of thing?

Mayor VOINOVICH. Well, I have a great deal of respect for Mayor Reinhart, and I think if you read my testimony, you'll find that there are some cities in this country who are flush, who are in good shape, who don't have unemployment, whose tax bases are growing, and may be able to handle these cuts.

But I would argue, Senator, that maybe they shouldn't be receiving some Federal assistance in the first place. Part of my testimony is a recommendation for a targeted economic development program—I sincerely believe that if you really spent the time, and the National League of Cities would be willing to work with you on this, that you could spend less money and target it, and do more to really solve the problems that are out there than what's occurring currently.

So, maybe he can handle it. If he were in my shoes—I mean, it's the old story. It depends on whose shoes you're wearing, and mine are different than his, and because we're wearing different shoes, perhaps we're speaking differently about the problem.

CLEVELAND DOES AUDIT LOCAL CORPORATIONS

Senator **METZENBAUM**. One other question concerns me. One of the reasons the Federal Government has a problem in balancing the budget is because there isn't enough money coming in. One of the reasons there's not enough money coming in is because in 1963 corporations paid over 20 percent of the total tax revenues in this country, but in 1983 they paid only 6.2 percent. You can't do anything about that; that's our job.

I've been concerned that the same situation has occurred in the city of Cleveland; that is, that the amount of revenues—municipal income tax revenues from corporations—has continued to decline. It hasn't related just to the question of the level of business activity. It's been a different matter—there's never been a business corporation audit in the history of the city of Cleveland to the best of my knowledge—at least, the last time I checked there hadn't been.

There's a flat tax, municipal income taxes, that the poorest person pays, and it's the same 1½ percent—maybe it's 2 at the moment—that the wealthiest person pays. The banks and utilities pay no taxes at all; they pay no income taxes. I remember one time you had a proposal to go forward to increase the municipal income tax and I was somewhat inclined to speak out against it for this very reason. You and I talked, you said immediately after the election, after you were able to prevail, that you would move into this whole area of corporations never being audited.

I don't know whether it would solve your problem, but it might go a long way toward picking up some of the revenue that I think some parts of the business community are not paying—not only in Cleveland, but in every other city in Ohio by reason of the absurd proscriptions that are in the State law on that subject. But I've never heard the mayors of the cities come forward and suggest a change.

Chairman **DOMENICI**. Before you answer, let me ask the Senator, are you planning to run for mayor of Cleveland?

Senator **METZENBAUM**. No, but he may be planning to run for U.S. Senator. [Laughter.]

Chairman **DOMENICI**. Oh, I wondered.

Mayor **VOINOVICH**. Senator, I'll talk to you about that some other time. I have no comment on it except to say that you're right. You take care of things on the national level in terms of corporations, and I think that's something that you've got to look at in terms of what impact taxes have had on the competitive position of our American manufacturers. I don't know what impact they have. Has the lowering of taxes made them more competitive? Has it allowed them to compete in the world marketplace better than they were before? Has it allowed them to make some of the capital improvements that they've needed to make so that they could modernize their facilities? I don't know that. You've better access to that information.

In terms of the city, we do audit returns. I'd like to tell you that last year one of the reasons why our payroll tax came in a little bit more than we suspected is because of the fact that we got a lot more money from our local corporations.

Senator **METZENBAUM**. I would like to know the facts on that.

Mayor **VOINOVICH**. Certainly.

[The following was subsequently supplied for the record:]

In 1983, the city of Cleveland realized $9.321 million in corporate revenues. This amount increased to $12.724 million last year.

Senator **METZENBAUM**. I thank the chairman.

Chairman **DOMENICI**. Thank you very much, Senator.

When is the qualifying time for these races?

Senator **METZENBAUM**. He's got to get over this coming mayoralty race, then he has to worry about the next one.

Chairman **DOMENICI**. Oh, I see.

Senator **CHILES**. We're trying to figure out whether you're going to run or not.

Senator **METZENBAUM**. I'm not going to run for mayor. I announce publicly that I'm not a candidate for mayor.

Chairman **DOMENICI**. I don't know if the mayor is relieved or not about your decision not to run. [Laughter.]

I told you a while ago, there are Democrats, Republicans, and Metzenbaum. Even Chiles is taking after you today.

Senator **METZENBAUM**. When Gorton was here, I thought we were going to talk about the fact that we've got the left represented, the right represented, and the wrong represented. But Slade left.

QUESTION ON CHANGE IN POSITION OF MEDICAID PROGRAM

Chairman **DOMENICI**. All right. Let me ask if there is a representative of the Governors' Association left here? I forgot to ask the Governor a question.

[No response.]

Chairman **DOMENICI**. No? Well, let me ask it for the record, and have the staff submit the question to the National Governors' Association. My question is about Medicaid.

The Governor, as I expected, objected to the Medicaid cap. I was wondering about their position on the cap, and the subsequent year limitation on the Federal match based upon inflation.

Would the Governors change their position if the Medicaid Program's coverage and scope was made totally flexible. If State governments were provided the flexibility to live within the cap, subject to some minimal guidelines, would there be any change in the Governors' opinions?

If staff would submit my question to them for their official answer, I would appreciate it.

[The following was subsequently supplied for the record:]

National Governors' Association

John Carlin
Governor of Kansas
Chairman

Raymond C. Scheppach
Executive Director

April 19, 1985

The Honorable Pete V. Domenici
Chairman
Senate Budget Committee
434 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Domenici:

As stated in our federal budget policy, the National Governors' Association strongly supports Congressional action to reduce the federal deficit. We have in fact suggested holding: a) the 1986 non-defense discretionary appropriations to the 1985 level, b) the national defense appropriations to the 1985 level plus inflation and c) a freeze on all cost-of-living adjustments, including social security. However, the means-tested programs, which have already been substantially reduced over the last several years, were exempted from reductions. As a result, we must strenuously oppose the proposed cap on Medicaid funding of health care for the poor. The proposal would constitute bad public policy because it would almost certainly force many states to cut needed services for our most vulnerable citizens. It would impose a restrictive ceiling on funding that is unrelated to a number of factors that can profoundly influence the health care needs of the poor.

Federal means-tested entitlement programs must be structured so that the basic needs of the poor can be met as conditions change. The proposed Medicaid cap would be insensitive to a broad range of economic, demographic and health care market factors that can significantly alter the need for Medicaid services in a given state:

- It would increasingly misallocate federal resources as changes in financing capacity and in the poor population vary across the states. Currently, nine states still have double-digit unemployment rates, largely in more industrialized regions of the country, and the economies of our farm states are deteriorating.

- It would ignore the much greater need for Medicaid caused by dramatic changes in the medical marketplace. A growing percentage — now over half -- of lower income Americans are not eligible for Medicaid. As health care providers are becoming cost competitive, these medically indigent individuals are experiencing greater difficulty in gaining access to needed care.

- It would not recognize increases in the long-term care needs of individuals over age 85, the fastest growing segment of our population in many states. Medicaid is virtually the only source of long-term coverage for our frail elderly population.

When the economy in an individual state weakens, as is currently true in the farm belt, state revenues fall significantly just when the need for basic programs for the poor are increasing. Individual states are subject to unpredictable economic downturns even when the national economy is strong; when this happens, Medicaid costs can quickly exceed state funding capacity. A Medicaid cap would be insensitive to this reality. Under the cap, Iowa would have to increase state Medicaid expenditures by $6.9 million in 1986 just to maintain its current program coverage, assuming no further weakening in the economy. This Medicaid cost increase exceeds the state's entire budget surplus in Iowa. Other states have large poor populations and limited resources to fund medical services under the proposed cap. Mississippi, the state with the highest percentage of poor persons, the nation's second highest infant mortality rate and 11.3 percent unemployment rate, would have to increase state Medicaid outlays by an estimated 58 percent in 1986 just to offset the federal reduction. Even worse, in many states the adverse effects of a Medicaid cap would grow dramatically over time.

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In general, a Medicaid cap would make federal health care financing for the poor insensitive to changing economic realities. Due to its weakened economic base and high unemployment rate (currently 10.2 percent), Michigan's per capita income has fallen relative to the national average. The proposed cap would preempt a scheduled change in federal Medicaid matching rates, which are based on per capita income, and cut federal Medicaid funding to Michigan by 12.5 percent in 1986. Economic health can change dramatically in a given state, and varies substantially across states. February 1984 unemployment rates range from 4.4 percent in Massachusetts to 15.4 percent in West Virginia. Federal safety net programs for the poor such as Medicaid must be responsive to such variations in economic status.

In many parts of the country, recent changes in the health care marketplace are making access to medical care far more difficult for the poor. As Medicare, Medicaid and private payors prospectively limit their payments, health care providers are less able to shift costs of charity care and are curtailing the provision of services to the uninsured poor. In Texas, Medicaid currently covers only 25 percent of the poor. Almost half (46 percent) of Texas residents with incomes below one-quarter of the federal poverty level are not covered by Medicaid or other health insurance. Voluntary hospitals in Brownsville, Texas are now requiring payment of between $2,800 and $3,500 before they will admit uninsured pregnant women in labor who need C-Sections. Due to such access problems, Texas now accounts for 1/3 of all the nation's out-of-hospital deliveries. Without Medicaid coverage, our indigent women, children and elderly are increasingly denied access to needed care.

Unfortunately, the extent of Medicaid coverage of the poor has been reduced substantially. Due to fiscal pressures on state governments and federal eligibility cutbacks, the proportion of poor and near-poor persons covered by Medicaid has fallen to under 50 percent from 63 percent in 1975. Private employers and employees have often reduced coverage or dropped coverage of dependents to constrain their own burgeoning health care costs. As a result of such changes, the burden of hospitals providing charity care for poor uninsured individuals has risen substantially. In South Carolina, hospital charity care costs have risen by 45 percent since 1981. The current Medicaid eligibility standard for a family of four is $2,748 in South Carolina, which has the highest infant mortality rate and a high rate of chronic diseases such as hypertension. The proposed cap would financially preclude states such as South Carolina and Texas from adopting Medicaid eligibility standard increases which are desperately needed to meet the health care needs of the poor.

Our frail elderly population is reliant on Medicaid as virtually the only source of coverage for long-term care, which constitutes the largest single cause of catastrophic health costs. In many states, the fastest growing segment of the population is age 85 and above. Florida projects a 73 percent increase in this population from 1980 to 1990 alone reflecting a rate of growth which is four times its overall population growth rate. Federal hospital payment changes are further increasing long-term care needs, as hospitals are placing more patients into long-term care settings to avoid the high costs of extended hospital stays. The proposed cap would be inflexible with respect to the growing need for long-term care by our frail, poor elderly population.

In short, a cap on Medicaid would violate the entitlement nature of this basic program for the poor. We therefore strongly oppose this proposal, and urge you to vote for measures to eliminate the proposed Medicaid cap.

Sincerely,

Lamar Alexander
Governor Lamar Alexander
Vice Chairman

John Carlin
Governor John Carlin
Chairman

Chairman **DOMENICI**. Now we're going to hear from County Commissioner Elfstrom. I'm sorry we took so long getting to you, Commissioner.

STATEMENT OF HON. PHILIP B. ELFSTROM, MEMBER, BOARD OF COMMISSIONERS, KANE COUNTY, IL, AND PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES

Commissioner **ELFSTROM**. Not at all, Senator.

I'm pleased to be here, members of the committee; my name is Phil Elfstrom. I'm president of the National Association of Counties, and a commissioner from Kane County, IL.

The problem with being fourth on the agenda is everybody said just about everything I want to say. So I'm going to mention at this time that there is a written record,[1] and you've got it, and I will try to be a little bit more brief so that I don't become redundant.

The National Association of Counties is certainly ready to join you in this mandate to eliminate or at least reduce the budget deficit.

In facing the tough decisions that have to be made, we endorse reducing the Federal deficit. And I want to point that out to begin with. Our problem is that we want to do it fairly. Unfortunately, fairly is in the eyes of the beholder.

We feel that since 1970 the National Association of Counties has supported cuts in many Federal domestic assistance programs, and we have already accepted over $40 billion in cuts since 1981.

Those figures are really a consensus of the various public interest groups.

MEANS TESTED ENTITLEMENTS SHOULD BE EXEMPT FROM FREEZE

Even so, we recognize the need at each level of government to share the burden in decreasing the national deficit. We recognize that it is, indeed, a major problem. We support an across-the-board freeze for fiscal year 1986. For the 1986 Federal budget, as opposed to deep cuts in any individual program.

This would mean, essentially, even then, a $3 billion cut in domestic spending to State and local governments. We do feel, however, that this is an equitable solution. But equity alone is not enough. We've got to be fair. I'm not sure what the difference between equity and fair is, but when we talk about fair we're really talking about poor people, and we feel that it is really unreasonable to subject the poor and the sick and the low-income elderly to a freeze at this time.

We maintain that means-tested entitlements, including Medicare, AFDC, SSI, and food stamps should be exempt from any freeze.

Further, it is unjustifiable for the Federal Government and the courts to impose mandates on local government, forcing us to clean up polluted air, polluted water, and hazardous waste dumps without providing the means to pay for them.

We believe that the 1986 funding levels must protect the capacity of State and local governments to meet Federal mandates, or the mandates must be adjusted to accommodate the available funding.

I said earlier that the individual American taxpayer expects an honest adjustment in spending. Creating savings in the Federal budget by simply shifting the responsibility and the cost to local government is really a back door approach.

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[1] See p. 148.

It is little more than a shell game to tell citizens that we're not going to raise taxes at the Federal level, but we're going to take away the local money, and that we're going to have to raise the taxes at the local level.

Essentially, in county government the only tax base available—although there are some exceptions—is the local property tax. And in fact if the program has to be supported, and in county government, virtually every program we do has to be supported; it's going to fall on the back of the taxpayer.

REVENUE SHARING HAS BEEN ESSENTIAL IN FILLING GAPS

General revenue sharing, I know, is under serious scrutiny this year. We know that you have some tough questions for us on its purpose, whether it's useful, and the rationale for retaining it when all Federal programs are under fire.

I would like to address some of those questions. Revenue sharing has been essential in filling the gap left by the first round of Federal budget cuts. In 1981 at the State and local level, we lost $40 billion in Federal assistance. Revenue sharing enabled us to keep alive programs for the elderly, the mentally ill, and the handicapped. In fact, the results of a survey just completed by our association, NACo, documents that in addition to the traditional services of public works and public safety, counties are using their revenue sharing funds for health care, social service, and education.

Over 60 percent of the counties responding used general revenue sharing funds to serve the poor and the disadvantaged. Counties are constrained in their budgets to first fund mandated services, the police, the roads, the welfare, and indigent health care. General revenue sharing has given counties the flexibility to fund social programs that could not be afforded using county funds alone.

There is a tendency to shrug off the use of general revenue sharing funds for local public works and public safety. The question arises: Why should the Federal Government fund local responsibilities? What needs to be understood is that some of our most costly projects are in response to Federal mandates.

We are building wastewater treatment plants, resource recovery operations, and bringing sanitary landfills up to hazardous waste safety standards. While the national goals, standards, and requirements remain, the Federal commitment in the form of construction grants and general revenue sharing is being withdrawn.

Another major expense we face is the county jail. We house 7 million criminals each year in the county jails. For the most part, they are old and overcrowded, and the courts in response to Federal statutes are demanding improvement.

Twenty percent of our jails in this country are under court order to improve their facilities at the present time. As many of you are aware, it costs $50,000 to build one jail cell.

COUNTY GOVERNMENTS HAVE DIFFERENT FISCAL YEARS

There's another fiscal matter to consider: County governments have different fiscal years—and I want to emphasize this point.

Some start in January, some start in July. Some of them in October. Many counties have already set their tax rates and approved their budgets planning on general revenue sharing payments as entitled in the legislation that's already been authorized.

It would be an added hardship for counties if the Federal Government reneged on these funds at this late date. These counties would not be able to adjust their tax levies and budget if Congress does not approve the 1986 general revenue sharing payments.

Some say we should turn to the States if we need help. A few States fortunate enough to have large surpluses are being highly publicized. Illinois, for one, has no large surplus. For the 14 States lowering taxes this year, there are 17 who are raising them. And having been a local government official for 15 years, I would state that I've never run into a State government that really wants to give to me the money that they have for their own State programs.

But let us look at the local finances, because it is at the local level that revenue sharing is being used to provide these services. County debt has increased 25 percent from 1981 to 1983, the highest single increase since the Depression. We are financing jails, bridges, roads, hospitals, and nursing homes. General revenue sharing is an important part of county budgets; 62 percent of the counties we surveyed use it for health care and social services.

When asked, they tell us that elimination of the program will mean higher taxes in some communities, reduced services in those having a declining tax base or for which they have reached the maximum levy allowed under their State law.

We realize that a freeze alone will not enable Congress to meet its deficit reduction goals. We realize that in addition to the $3 billion we give up in an overall freeze, we may have to negotiate or sacrifice other programs. In response we've assembled our five priorities that should not be cut, we feel, under any circumstances, and a list of nine other high priorities.

OTHER PROGRAMS NOT TO BE CUT

In addition to general revenue sharing, the other programs not to be cut are Medicaid, programs for rural areas who have suffered enough, community block grants, and Federal assistance for mass transportation.

Let me briefly discuss the importance of these programs. We know that health care is costly because 34 States hold the county governments legally responsible for indigent health care. Capping or freezing the Federal contribution to Medicaid does not stop the caseloads from growing or the hospitals and doctors from sending us their bills.

Rural programs. 2,500 counties of this Nation have fewer than 50,000 people. The rural counties of our country are taking it heavy as it is with the farm problems that are being presented to us. We have reneged on many rural programs over the last 3 years, even though we haven't taken away the mandates.

Since 1980, loan programs to rebuild rural water and waste treatment systems have been cut by more than 60 percent; grants and programs have been cut by nearly 75 percent; loans for general community facilities have been cut by nearly 50 percent; and, programs to rebuild or diversify rural economies have been reduced by nearly 80 percent.

We feel the community development block grant is an important factor to county government. It is the one system where the money that we get is leveraged substantially, and that we average a lot of private money that otherwise would not be available.

And, finally, mass transportation. We've got to make a commitment, and continue that commitment to mass transit in our urban areas. I see no other alternative to it. There are areas of improvement such as the fare box. But if you're going to depend upon the fare box for urban transportation, you might as well recognize that you're not going to have any.

Mr. Chairman, we applaud the efforts of your committee. We appreciate the gravity of the situation, and the seriousness of the decisions you will be making. We do ask you that you let the principles of fairness and equity guide you. We ask that you take actions that will enhance, not dismantle, the effectiveness of local government.

Mr. Chairman, that concludes my remarks, and you have a copy of those things that I haven't touched on. Thank you.

Chairman DOMENICI. Thank you very much.

[The prepared statement of Commissioner Elfstrom follows:]

NATIONAL
ASSOCIATION
of
COUNTIES

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STATEMENT OF

THE HONORABLE PHILIP B. ELFSTROM
MEMBER, BOARD OF COMMISSIONERS, KANE COUNTY, ILLINOIS
AND
PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES

BEFORE THE

SENATE BUDGET COMMITTEE

ON BEHALF OF

THE NATIONAL ASSOCIATION OF COUNTIES

FEBRUARY 21, 1985

WASHINGTON, D. C.

STATEMENT OF THE HONORABLE PHILIP B. ELFSTROM, MEMBER, BOARD OF COMMISSIONERS, KANE COUNTY, ILLINOIS AND PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES BEFORE THE SENATE BUDGET COMMITTEE

GOOD MORNING, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I AM PHILIP ELFSTROM, PRESIDENT OF THE NATIONAL ASSOCIATION OF COUNTIES,* AND MEMBER OF THE KANE COUNTY (ILLINOIS) BOARD OF COMMISSIONERS. I AM HONORED TO BE HERE THIS MORNING TO EXTEND THE HELP AND COOPERATION OF COUNTY GOVERNMENTS IN REDUCING THE FEDERAL DEFICIT.

MR. CHAIRMAN, I HAVE BEEN COMING TO WASHINGTON FOR 15 YEARS NOW, REPRESENTING COUNTY GOVERNMENTS ON THE HILL, AT THE WHITE HOUSE, AND IN THE VARIOUS AGENCIES AND FEDERAL DEPARTMENTS. THE BUILDINGS AND THE TRAPPINGS OF THIS TOWN ARE ABOUT THE SAME AS THEY HAVE ALWAYS BEEN BUT THIS YEAR SOMETHING IS FUNDAMENTALLY DIFFERENT. WASHINGTON IS LOOKING BEYOND THE SPECIAL INTERESTS, RE-EVALUATING THE PREFERENTIAL TREATMENT GIVEN SO LONG TO SELECTED GROUPS, AND SEEMS MORE IN TUNE WITH THE COUNTRY AS A WHOLE, WITH THE TAXPAYERS IN MY HOME STATE OF ILLINOIS, AND THE 15 OTHER STATES I HAVE VISITED IN MY TENURE AS PRESIDENT OF THE NATIONAL ASSOCIATION OF COUNTIES.

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*THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

THE TAXPAYERS AND CITIZENS THAT HAVE COLLECTIVELY ELECTED THE PRESIDENT, VOTED INTO OFFICE THE MEMBERS OF CONGRESS AND THIS COMMITTEE, ARE THE SAME ONES WHO ELECTED ME AND MY FELLOW COUNTY COMMISSIONERS AROUND THE COUNTRY. THE MESSAGE TO YOU AND TO ME, MR. CHAIRMAN, IS VERY CLEAR: RELIEVE THE RELENTLESS BURDEN OF TAXES AND THE FRIGHTENING PROSPECTS OF HISTORICALLY HIGH DEFICITS BY REDUCING SPENDING, BUT DO IT FAIRLY, HONESTLY, AND CAREFULLY.

THE NATIONAL ASSOCIATION OF COUNTIES IS READY TO JOIN YOU IN MEETING THIS MANDATE. IN FACING THE TOUGH DECISIONS AND TOUGH CHOICES THAT HAVE TO BE MADE, WE ENDORSE REDUCING THE FEDERAL DEFICIT. BUT LET US DO IT TOGETHER FAIRLY.

SINCE THE LATE 1970'S, THE NATIONAL ASSOCIATION OF COUNTIES HAS SUPPORTED CUTS IN CERTAIN FEDERAL DOMESTIC ASSISTANCE PROGRAMS AND WE HAVE ALREADY ACCEPTED $40 BILLION OF CUTS SINCE 1981 IN DOMESTIC ASSISTANCE. EVEN SO, WE RECOGNIZE THE NEED OF EACH LEVEL OF GOVERNMENT TO SHARE THE BURDEN IN DECREASING THE NATIONAL DEFICIT. WE SUPPORT AN ACROSS THE BOARD FREEZE FOR THE FISCAL YEAR 1986 FEDERAL BUDGET AS OPPOSED TO DEEP CUTS IN INDIVIDUAL PROGRAM AREAS. THIS WOULD MEAN A $3 BILLION CUT IN DOMESTIC SPENDING TO STATE AND LOCAL GOVERNMENTS. WE DO FEEL HOWEVER THAT THIS IS AN EQUITABLE SOLUTION. BUT EQUITY ALONE IS NOT ENOUGH. THE BURDEN MUST BE FAIR. WE FEEL IT IS UNREASONABLE TO SUBJECT THE POOR, THE SICK, AND THE LOW INCOME ELDERLY TO A FREEZE. WE MAINTAIN THAT MEANS-TESTED ENTITLEMENTS, INCLUDING MEDICAID, AFDC, SSI, AND FOOD STAMPS SHOULD BE EXEMPT FROM THE FREEZE.

FURTHER, IT IS UNJUSTIFIABLE FOR THE FEDERAL GOVERNMENT AND COURTS TO IMPOSE MANDATES ON LOCAL GOVERNMENTS, FORCING US TO CLEAN UP POLLUTED WATER AND AIR AND HAZARDOUS WASTE DUMP SITES WITHOUT PROVIDING THE MEANS TO PAY FOR IT. WE BELIEVE THAT 1986 FUNDING LEVELS MUST PROTECT THE CAPACITY OF STATE AND LOCAL GOVERNMENTS TO MEET FEDERAL MANDATES OR THE MANDATES MUST BE ADJUSTED TO ACCOMMODATE AVAILABLE FUNDING.

I SAID EARLIER THAT THE INDIVIDUAL AMERICAN TAXPAYER EXPECTS AN HONEST ADJUSTMENT IN SPENDING. CREATING SAVINGS IN THE FEDERAL BUDGET BY SIMPLY SHIFTING THE RESPONSIBILITY AND THE COST TO LOCAL GOVERNMENTS IS A BACK DOOR APPROACH. IT IS NO MORE THAN A SHELL GAME. IF YOU DO THAT, YOU MUST SHARE RESPONSIBILITY AS WE STAND ON THE COURT HOUSE STEPS AND TELL THE TAXPAYERS THAT THEIR TAXES -- ALBEIT PROPERTY AND SALES TAXES -- THEIR TAXES ARE GOING TO BE RAISED. BY ELIMINATING SUCH AN IMPORTANT PROGRAM AS GENERAL REVENUE SHARING YOU ARE FORCING US TO DO JUST THAT.

THE GENERAL REVENUE SHARING PROGRAM IS UNDER SERIOUS SCRUTINY THIS YEAR. WE KNOW THAT YOU HAVE TOUGH QUESTIONS FOR US ON ITS PURPOSE, USEFULNESS, AND THE RATIONALE FOR RETAINING IT WHEN ALL FEDERAL PROGRAMS ARE UNDER FIRE. I WOULD LIKE TO ADDRESS THOSE QUESTIONS.

GENERAL REVENUE SHARING HAS BEEN ESSENTIAL IN FILLING THE GAP LEFT BY THE FIRST ROUND OF FEDERAL BUDGET CUTS IN 1981. AT THE STATE AND LOCAL LEVEL WE LOST $40 BILLION IN FEDERAL ASSISTANCE. REVENUE SHARING ENABLED US TO KEEP ALIVE PROGRAMS FOR THE ELDERLY, THE MENTALLY ILL, THE HANDICAPPED. IN FACT, THE RESULTS OF A SURVEY JUST COMPLETED BY NACO DOCUMENTS THAT IN ADDITION TO THE TRADITIONAL SERVICES SUCH AS PUBLIC WORKS AND PUBLIC SAFETY, COUNTIES ARE USING THEIR REVENUE

SHARING FUNDS FOR HEALTH CARE, SOCIAL SERVICES, AND EDUCATION. OVER 60 PERCENT OF THE COUNTIES RESPONDING USE GENERAL REVENUE SHARING FUNDS TO SERVE THE POOR AND DISADVANTAGED. COUNTIES ARE CONSTRAINED IN THEIR BUDGETS TO FIRST FUND MANDATED SERVICES -- POLICE, ROADS, WELFARE, INDIGENT HEALTH CARE. GENERAL REVENUE SHARING HAS GIVEN COUNTIES THE FLEXIBILITY TO FUND SOCIAL PROGRAMS THAT COULD NOT BE AFFORDED USING COUNTY FUNDS ALONE.

ANOTHER MAJOR EXPENSE WE FACE ARE COUNTY JAILS. WE HOUSE SEVEN MILLION CRIMINALS EACH YEAR IN COUNTY AJILS. AND FOR THE MOST PART, THEY ARE OLD AND OVERCROWDED. THE COURTS UNDER FEDERAL STATUTE ARE DEMANDING IMPROVEMENTS. IN FACT, 20 PERCENT OF COUNTY JAILS ARE UNDER COURT ORDER TO IMPROVE THE FACILITIES. IT COSTS UPWARDS OF $50,000 TO CONSTRUCT A SINGLE JAIL CELL. OVER AND OVER AGAIN, THE COUNTIES SURVEYED NOTED THEY WERE USING REVENUE SHARING FUNDS TO SUPPLEMENT THIS EXTRAORDINARY EXPENSE.

SOME SAY WE SHOULD TURN TO THE STATES IF WE NEED HELP. THE FEW STATES FORTUNATE ENOUGH TO HAVE LARGE SURPLUSES ARE BEING HIGHLY PUBLICIZED. ILLINOIS, FOR ONE, HAS NO LARGE SURPLUS. FOR THE 14 STATES LOWERING TAXES THIS YEAR, THERE ARE 17 WHO ARE RAISING TAXES.

BUT LET US LOOK AT LOCAL FINANCES BECAUSE IT IS AT THE LOCAL LEVEL THAT REVENUE SHARING IS USED TO PROVIDE THE SERVICES. COUNTY DEBT HAS INCREASED 25 PERCENT FROM 1981-1983, THE HIGHEST SINGLE INCREASE SINCE THE DEPRESSION. WE ARE FINANCING JAILS, BRIDGES AND ROADS, AND HOSPITALS AND NURSING HOMES.

GENERAL REVENUE SHARING IS AN IMPORTANT PART OF COUNTY BUDGETS. SIXTY-TWO PERCENT OF THE COUNTIES WE SURVEYED USE IT FOR HEALTH CARE AND SOCIAL SERVICES. WHEN ASKED, THEY TELL US ELIMINATION OF THE

PROGRAM WILL MEAN HIGHER TAXES IN SOME COMMUNITIES AND REDUCED SERVICES IN THOSE HAVING A DECLINING TAX BASE OR WHICH HAVE REACHED THEIR MAXIMUM TAX LEVY UNDER STATE LAW. PRINCE GEORGE'S COUNTY, MARYLAND, FOR EXAMPLE, WITH A POPULATION OF 669,088, WILL RECEIVE $11.8 MILLION IN REVENUE SHARING IN THE CURRENT FISCAL YEAR. WHILE THAT FIGURE REPRESENTS ONLY 2.1 PERCENT OF THE COUNTY BUDGET, A PROPERTY TAX INCREASE OF 16.5 CENTS PER $100 VALUATION WOULD BE REQUIRED TO REPLACE THE MONEY IF GRS WERE DISCONTINUED.

WE REALIZE THAT A FREEZE ALONE WILL NOT ENABLE THE CONGRESS TO MEET ITS DEFICIT REDUCITON GOALS. WE REALIZE THAT IN ADDITION TO THE $3 BILLION WE GIVE UP IN AN OVERALL FREEZE WE MAY HAVE TO NEGOTIATE OR SACRIFICE OTHER PROGRAMS. IN RESPONSE, WE HAVE COMPILED OUR TOP FIVE PRIORITIES AND A LIST OF NINE OTHER HIGH PRIORITIES.

IN ADDITION TO GENERAL REVENUE SHARING, OUR TOP PRIORITIES ARE MEDICAID, PROGRAMS FOR RURAL AREAS, COMMUNITY DEVELOPMENT BLOCK GRANTS AND FEDERAL ASSISTANCE FOR MASS TRANSPORTATION. LET ME BRIEFLY DISCUSS THE IMPORTANCE OF THESE PROGRAMS:

PRIORITY 1: REVENUE SHARING

GENERAL REVENUE SHARING WAS ENACTED IN 1972, DURING THE NIXON ADMINISTRATION, TO ENABLE COUNTIES AND OTHER LOCAL GOVERNMENTS TO ASSUME AN INCREASING SHARE OF RESPONSIBILITIES FOR THE FEDERAL GOVERNMENT.

IN THE CURRENT FISCAL YEAR, REVENUE SHARING WILL PROVIDE NEARLY $4.6 BILLION TO LOCAL GOVERNMENTS, $1.9 BILLION OF THAT TOTAL TO COUNTIES.

VIRTUALLY NO STRINGS ARE ATTACHED. REVENUE SHARING IS THE ONLY FEDERAL ALLOCATION TO LOCAL GOVERNMENTS WITH THE FLEXIBILITY TO BE

SPENT IN RESPONSE TO LOCAL NEEDS. THIS FEATURE OF REVENUE SHARING IS VERY IMPORTANT BECAUSE SO MUCH MONEY IN COUNTY BUDGETS IS EARMARKED FOR SERVICES COUNTIES ARE REQUIRED TO PROVIDE IN RESPONSE TO SOME 1,000 MANDATES.

MANY OF THESE SERVICES WERE CREATED IN RESPONSE TO NATIONAL OBJECTIVES, DEFINED BY THE FEDERAL GOVERNMENT -- SUCH AS CLEAN WATER, HEALTH CARE, SERVICES TO THE NEEDY, ACCESS FOR THE DISABLED. BUT WHILE THESE SERVICES COME, IN MANY CASES, AT THE DIRECTION OF THE FEDERAL GOVERNMENT, COUNTIES ARE THE MECHANISM THAT MUST CARRY THEM OUT AND PROVIDE THE LOCAL NETWORK OF ADMINISTRATION AND DELIVERY.

THIS IS THE REASONING BEHIND REVENUE SHARING. IN FACT, THE CONCEPT IS NOT REVENUE SHARING, BUT TAX BASE SHARING, SO THAT COUNTIES COULD ASSUME THE COSTS OF NATIONAL POLICY OBJECTIVES. IN FIRST ENACTING THE PROGRAM 13 YEARS AGO, THE ADMINISTRATION AND THE CONGRESS RECOGNIZED THAT WITHOUT IT, LOCAL GOVERNMENTS COULD NOT CARRY OUT BOTH NATIONAL PRIORITIES AND RESPOND TO THE LOCAL SERVICE NEEDS OF THEIR OWN CITIZENS USING ONLY THE LIMITED RESOURCES AVAILABLE LOCALLY.

GENERAL REVENUE SHARING WAS BEGUN IN A YEAR OF FEDERAL DEFICITS. IT HAS BEEN REPEATEDLY REAUTHORIZED AND FUNDED IN YEARS OF FEDERAL DEFICITS. THE PHILOSOPHY BEHIND IT IS A RECOGNITION OF THE PARTNERSHIP ROLE OF COUNTY GOVERNMENT IN THE NATIONAL INTERGOVERNMENTAL SYSTEM, A MEANS OF FURTHERING NATIONAL OBJECTIVES THROUGH LOCAL SERVICES, A METHOD OF PROVIDING NEEDED FLEXIBILITY IN THE FINANCES OF LOCAL GOVERNMENT.

MAIN SERVICES PROVIDED WITH GENERAL REVENUE SHARING

NACO CONDUCTED A SURVEY OF THE 3,000 COUNTIES IN THE COUNTRY TO DETERMINE HOW THEY ARE USING REVENUE SHARING FUNDS. WE HAD AN OVERWHELMING RESPONSE RATE OF 25 PERCENT.

WE ASKED COUNTIES TO TELL US WHAT PREDOMINANT USES THEY MADE OF REVENUE SHARING FUNDS. THEIR RESPONSES COVERED A WIDE RANGE OF SERVICES, SOMETIMES LINKED TO COUNTY POPULATIONS. SMALLER COUNTIES, AS A GENERAL TREND, SPENT MOST OF THEIR FUNDS IN FEWER AREAS, TO DELIVER MOST BASIC SERVICES -- STREET, HIGHWAY, BRIDGE CONSTRUCTION AND REPAIR, PUBLIC TRANSPORTATION, WATER TREATMENT AND SEWAGE FACILITIES, POWER SUPPLY, BUILDING INSPECTION AND MAINTENANCE, CAPITAL IMPROVEMENTS. THEY PROVIDE HEALTH AND MENTAL HEALTH SERVICES AND PUBLIC SAFETY THAT INCLUDES POLICE PROTECTION AND LAW ENFORCEMENT, FIRE AND EMERGENCY SERVICES, JAILS AND LEGAL SERVICES AND DISASTER PREPAREDNESS. AS THE SIZE OF COUNTIES INCREASES, THE USES COUNTIES MAKE OF GRS GROWS, TOO. SOME OF THE MORE DIVERSE PROGRAMS INCLUDED DOMESTIC VIOLENCE INTERVENTION, MEALS ON WHEELS, UTILITY PAYMENTS FOR THE DESTITUTE, VETERANS' SERVICES, INDIGENT CARE, AND FIRE PROTECTION.

DESPITE THE VARIATION IN COUNTY SIZE THE TOP GRS PRIORITY SPENDING AREAS OF ALL COUNTIES FOR REVENUE SHARING WERE PUBLIC WORKS/INFRASTRUCTURE, PUBLIC SAFETY AND HEALTH, NOT ALWAYS IN THAT ORDER.

COUNTIES ALSO TOLD US THEY SPEND REVENUE SHARING FUNDS FOR SOCIAL SERVICES AND WELFARE PROGRAMS, EDUCATION, ENVIRONMENTAL PROTECTION, PARKS AND RECREATION, AND FOR ADMINISTRATIVE COSTS.

THE WIDE VARIETY OF SERVICES FUNDED THROUGH REVENUE SHARING INDICATE THE IMPORTANCE OF THE PROGRAM'S FLEXIBILITY AS WELL AS THE NEED TO MEET COMMUNITY NEEDS AS LOCALLY DEFINED.

RESPONDING TO MANDATES

COUNTIES WERE ASKED IN WHAT WAYS REVENUE SHARING FUNDS ARE USED TO MEET MANDATES IMPOSED BY OTHER LEVELS OF GOVERNMENT OR BY THE COURTS. MORE THAN 56 PERCENT OF THE COUNTIES RESPONDING INDICATED

THAT THESE FUNDS WERE USED TO ASSIST IN MEETING MANDATES IN SIX MAJOR CATEGORIES: JAILS AND DETENTION FACILITIES AND OPERATIONS, MENTAL HEALTH AND INDIGENT HEALTH CARE, HANDICAPPED ACCESS REGULATIONS, ENVIRONMENTAL REGULATIONS, AND SOLID WASTE DISPOSAL.

THE LARGEST PERCENTAGE OF EXPENDITURES FELL INTO THE AREA OF JAIL AND DETENTION FACILITIES WHERE ALL COUNTIES RESPONDING SPENT FROM 32.7 PERCENT TO A HIGH OF 63.8 PERCENT RESPONDING TO THESE MANDATES. THIS OCCURRED IN COUNTIES WITH POPULATIONS OF 100,000 - 249,000. BECAUSE COUNTIES HANDLE 95 PERCENT OF THE CRIMINAL JUSTICE WORKLOAD, MUCH OF THIS MONEY WAS SPENT TO BUILD OR EXPAND JAIL FACILITIES TO MEET FEDERAL MANDATES.

SERVICES TO THE POOR AND DISADVANTAGED

MORE THAN 57 PERCENT OF THE COUNTIES RESPONDING TO THE SURVEY SAID PORTIONS OF THEIR REVENUE SHARING MONEY AIDED POOR AND/OR DISADVANTAGED RESIDENTS. IN THE GROUP OF COUNTIES BETWEEN 10,000 AND 49,999 IN POPULATION, MORE THAN 98 PERCENT REPORTED USE OF REVENUE SHARING MONEY TO ASSIST THE POOR AND DISADVANTAGED. ALL COUNTIES THAT RESPONDED TO THIS QUESTION INDICATED THAT THE MAJORITY OF FUNDS USED IS IN THE AREA OF HEALTH, MENTAL HEALTH CARE, NURSING HOMES, HOSPITALS AND INDIGENT CARE. PROPORTIONS OF COUNTIES USING GRS FUNDS FOR THE POOR AND DISADVANTAGED IN THE AREA OF HEALTH RANGED FROM 50 PERCENT TO A HIGH OF 82.7 PERCENT FOR COUNTIES WITH POPULATIONS OF 100,000 - 249,000.

A LARGE SHARE OF THESE FUNDS WAS ALSO USED TO PROVIDE FREE PUBLIC TRANSPORTATION TO THE NEEDY AND ELDERLY AS WELL AS IMPROVED AND FREE SERVICES FROM EMERGENCY VEHICLES, INCLUDING AMBULANCE SERVICES. COUNTIES IN ALL POPULATION CATEGORIES SPENT FUNDS TO ASSIST THE ELDERLY

WITH A VARIETY OF SERVICES, INCLUDING SENIOR CITIZEN CENTERS, HOME HEALTH CARE, MEALS-ON-WHEELS, AND EMERGENCY FOOD AND SHELTER. OTHER CATEGORIES INCLUDE SPENDING ON NUTRITION PROGRAMS, CHILD CARE, AND SPECIAL EDUCATION AND VOCATIONAL PROGRAMS FOR THE HANDICAPPED.

PROGRAMS TO ASSIST THE POOR AND DISADVANTAGED CLASSIFIED IN THE SURVEY AS MISCELLANEOUS EXPANDED AS THE COUNTY POPULATION INCREASED. THIS TREND INDICATED THE INCREASED AND BROADER SERVICE LOAD CARRIED BY LARGER COUNTIES. COUNTIES IN THE LARGER POPULATION CATEGORIES SPONSOR PROGRAMS FOR THEIR NEEDY POPULATION FROM GRS FUNDS THAT INCLUDE: ALTERNATIVES TO VIOLENCE, DRUG ABUSE AND ALCOHOL REHABILITATION, VETERANS SERVICES, EMERGENCY FOOD AND SHELTER, UTILITY PAYMENTS FOR THE DESTITUTE, PROGRAMS FOR BATTERED WIVES AND ABUSED CHILDREN, HANDICAPPED EDUCATION, AND THE FUNDING OF A WIDE VARIETY OF SOCIAL SERVICE AGENCIES.

PRIORITY 2: MEDICAID

COUNTIES NATIONWIDE SPEND MORE THAN $25 BILLION ON HEALTH CARE, WHICH IS THE FASTEST GROWING PORTION OF COUNTY BUDGETS.

NACO OPPOSES THE ADMINISTRATION PROPOSED CHANGES AND REDUCTIONS IN THE MEDICAID PROGRAM. CHANGING THE ENTITLEMENT NATURE OF MEDICAID BY CAPPING THE PROGRAM AND CUTTING FY '86 EXPENDITURES BY $1.3 BILLION WOULD PERMANENTLY SHIFT TO COUNTIES THE COSTS OF PROVIDING HEALTH CARE TO A RAPIDLY GROWING UNINSURED/UNDERINSURED POPULATION FOR WHOM COUNTIES ARE "FINANCERS AND PROVIDERS OF LAST RESORT." PLACING A CAP ON FEDERAL MEDICAID EXPENDITURES WOULD END THE FEDERAL GOVERNMENTS' COMMITMENT TO THE HEALTH CARE NEEDS OF MILLIONS OF ELDERLY AND POOR CHILDREN AND THEIR FAMILIES. FEDERAL APPROPRIATIONS WOULD NO LONGER BE SENSITIVE TO CHANGES IN PER CAPITA INCOME AFFECTED BY UNEMPLOYMENT

AND THE POVERTY RATE WHICH HAS CONSISTENTLY RISEN AND IS CURRENTLY AT ITS HIGHEST LEVEL SINCE 1966.

NOT ONLY WILL THE NUMBER OF ELIGIBLE PEOPLE BE AFFECTED, BUT APPROXIMATELY ONE THOUSAND COUNTY PUBLIC HOSPITAL AND SIX HUNDRED COUNTY NURSING HOMES SERVING AS A HEALTH CARE SAFETY NET FOR THE POOR WILL BE HURT. THESE PUBLIC HEALTH FACILITIES ARE ALREADY FINANCIALLY STRESSED AND RELY ON MEDICAID AS A MAJOR INSURER OF LOW INCOME PATIENTS. BILLIONS OF DOLLARS ARE ALREADY SPENT BY COUNTIES FOR CHARITY CARE IN THESE HOSPITALS, CLINICS AND NURSING HOMES. THIS IS ONE OF THE FASTEST GROWING PORTIONS OF COUNTY BUDGETS NATIONWIDE AND, BECAUSE COUNTY GOVERNMENTS' TAXING CAPACITY IS SEVERELY LIMITED, PUBLIC HOSPITALS -- BOTH RURAL AND URBAN -- NURSING HOMES, AND THE PROVISION OF HEALTH CARE TO MILLIONS OF PEOPLE WILL BE JEOPARDIZED, IF THE MEDICAID PROGRAM IS CAPPED AND DOLLARS ARE CUT FURTHER. IN ADDITION, THE FREEZE IN MEDICARE HOSPITAL REIMBURSEMENT RATES AND OTHER CUTS AND REFORMS IN THE MEDICARE PROGRAM WILL FURTHER EXACERBATE THE CRISIS FACED BY OUR NATIONS PUBLIC HEALTH SYSTEM.

CREATING A SEPARATE BLOCK GRANT FOR MEDICAID ADMINISTRATIVE COSTS AND INDEXING THE PROGRAM TO THE GROSS NATIONAL PRODUCT DEFLATER WOULD RESULT IN A DIRECT COST SHIFT TO COUNTIES. IN NEARLY HALF THE STATES COUNTIES ADMINISTER MEDICAID AND, IN 13 STATES THEY PAY A PORTION OF THE ASSISTANCE AND/OR ADMINISTRATIVE COSTS OF THE PROGRAM. BASING ADMINISTRATIVE REIMBURSEMENT ON A NATIONWIDE AVERAGE WOULD NOT TAKE INTO ACCOUNT DISPARITIES IN WAGES, RENTAL PROPERTIES AND OTHER ADMINISTRATIVE COSTS THAT EXIST FROM STATE TO STATE AND LOCALITY TO LOCALITY.

PRIORITY 3: COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM

CDBG IS THE CORNERSTONE URBAN DEVELOPMENT TOOL USED BY LOCAL GOVERNMENTS FOR HOUSING REHABILITATION, PUBLIC FACILITIES CONSTRUCTION AND JOB CREATION.

IN ITS 11-YEAR EXISTENCE, THE PROGRAM HAS ATTRACTED SUBSTANTIAL PRIVATE REINVESTMENT TO LOCAL COMMUNITIES, MAKING IT AN EXTREMELY IMPORTANT AND POPULAR PROGRAM TO URBAN AND RURAL COUNTIES.

FUNDING FOR THE PROGRAM HAS BEEN STATIC FOR SEVERAL YEARS AT $3.5 BILLION ANNUALLY. HOWEVER, ANALYSTS ESTIMATE THAT HAD CDBG FUNDING LEVELS KEPT PACE WITH INFLATION AND OTHER COST INDEXES, ITS ANNUAL APPROPRIATION SHOULD BE $5 TO 8 BILLION.

SEVENTY PERCENT OF CDBG FUNDS GOES TO ENTITLEMENT COMMUNITIES, INCLUDING 104 URBAN COUNTIES WHICH RECEIVED $433 MILLION IN FY 1984. THE REMAINING 30 PERCENT GOES TO THE SMALL CITIES PROGRAM (UNDER 50,000 POPULATION). NON-URBAN COUNTIES CAPTURED AN ESTIMATED 20 PERCENT OF THESE FUNDS WHICH ARE AWARDED ON A DISCRETIONARY BASIS BY THE INDIVIDUAL STATES.

ALONG WITH EFFECTIVELY DECLINING FUNDING, THE PROGRAM IS PICKING UP A GREATER SHARE OF ADMINISTRATIVE RESPONSIBILITIES FOR COMPANION PROGRAMS SUCH AS RENTAL REHAB AND STATE WEATHERIZATION. ALSO, SINCE STATES BEGAN ADMINISTERING THE SMALL CITIES PROGRAM IN 1982, THE NUMBER OF NON-URBAN COUNTIES FUNDED HAS NEARLY DOUBLED, BUT THE AVERAGE GRANT AMOUNT AWARDED TO COUNTIES HAS BEEN REDUCED BY 61 PERCENT FROM $530,000 TO $205,000.

NACO SUPPORTS FUNDING FOR THIS PROGRAM AT LEAST AT THE 1984 APPROPRIATIONS LEVEL.

PRIORITY 4: RURAL PROGRAMS

MORE THAN 2,500 OF THE NATION'S COUNTIES HAVE FEWER THAN 50,000 RESIDENTS. THE MAJORITY OF THESE SMALL COUNTIES RELY HEAVILY ON FARMING AND FARM ANCILLARY BUSINESS AS THEIR CHIEF ECONOMIC BASE.

GLOBAL MARKET CHANGES, NATURAL DISASTER, HIGH INTEREST RATES AND A GENERAL REDUCTION IN SUPPORT FOR THE AVERAGE AMERICAN FARMER HAVE CAUSED A MAJOR ECONOMIC DOWNTURN IN RURAL ECONOMIES. AS THE RURAL FARM ECONOMY WORSENS, THE LOCAL COMMUNITY BUSINESS SECTOR DECLINES AS A RESULT OF THE REDUCED DEMAND FOR SUPPORT SERVICES.

RURAL LOCAL GOVERNMENT REVENUES DECREASE AS BUSINESSES FAIL. IN THE FACE OF A DWINDLING TAX BASE, RURAL COMMUNITIES CANNOT SUSTAIN THE BASIC SERVICES OF WATER, WASTEWATER AND SOLID WASTE DISPOSAL. AS A RESULT, FEW OPTIONS EXIST TO EXPAND THE LOCAL ECONOMY TO NON-FARM INDUSTRIES.

FEDERAL SUPPORT TO EXPAND THE RURAL LOCAL ECONOMIC BASE HAS BEEN GREATLY REDUCED OVER THE PAST SIX YEARS. SINCE 1980, LOAN PROGRAMS TO REBUILD RURAL WATER AND WASTEWATER SYSTEMS HAVE BEEN CUT BY MORE THAN 60 PERCENT; GRANTS AND PROGRAMS HAVE BEEN CUT BY NEARLY 75 PERCENT; LOANS FOR GENERAL COMMUNITY FACILITIES HAVE BEEN REDUCED NEARLY 50 PERCENT; AND PROGRAMS TO REBUILD OR DIVERSIFY RURAL ECONOMIES HAVE BEEN REDUCED BY NEARLY 80 PERCENT.

THE PRESIDENT'S BUDGET PROPOSES TO ELIMINATE MANY OF THE FARM PROGRAMS DESIGNED TO PROVIDE OPERATING ASSISTANCE AND DISASTER AID FOR MANY SMALL AND/OR FAMILY OWNED FARMS. RURAL DEVELOPMENT FUNDS ARE SLATED FOR EVEN FURTHER REDUCTIONS. DEPRESSED RURAL ECONOMIES HAVE INCREASED THE NEED FOR PUBLIC ASSISTANCE AS FAMILIES LOSE THEIR FARMS OR BUSINESSES. CONSEQUENTLY, RURAL COUNTIES HAVE REALLOCATED FUNDS

FROM THEIR CAPITAL OPERATING BUDGETS TO MEET INCREASED SOCIAL SERVICE DEMANDS. THIS HAS EXACERBATED THE ABILITY OF RURAL COMMUNITIES TO ATTRACT NEW BUSINESS OR INDUSTRY.

THE SELF-SUFFICIENCY OF RURAL AREAS IS CURRENTLY AT STAKE. CONTINUED INVESTMENT TO ASSIST RURAL AREAS TO MAINTAIN THEIR SELF-SUFFICIENCY THROUGH NEW NATIONAL FARM POLICIES, EXPORT POLICIES, AND A REEMPHASIS OF LOW INTEREST LOANS FOR ECONOMIC DEVELOPMENT PURPOSES IS NEEDED.

WE ARE WILLING TO ACCEPT A FREEZE ON FARM AND RURAL DEVELOPMENT ASSISTANCE. WE OPPOSE CUTS BELOW THE FISCAL 1984 FUNDING LEVELS AND WE URGE THE ADMINISTRATION AND CONGRESS TO RECONSIDER FARM AND EXPORT POLICIES TO MAINTAIN THE VITALITY OF THE FARM INDUSTRY.

PRIORITY 5: FEDERAL ASSISTANCE FOR MASS TRANSPORTATION

FEDERAL ASSISTANCE FOR MASS TRANSIT IS ALLOCATED TO ALL METROPOLITAN AREAS WITH MORE THAN 50,000 RESIDENTS BY DIRECT FORMULA AND AREAS UNDER 50,000 POPULATION THROUGH GRANTS TO STATES.

THESE FUNDS ENABLE COUNTIES TO PROVIDE COORDINATED, REGIONAL TRANSPORTATION SERVICES TO THEIR CITIZENS AT AFFORDABLE COSTS, WHICH PROMOTES ENERGY SAVINGS, CLEANER ENVIRONMENTS, ECONOMIC GROWTH AND MORE EFFICIENT TRANSPORTATION ACCESS FOR ALL CITIZENS.

A LARGE NUMBER OF COUNTY GOVERNMENTS PROVIDE TRANSPORTATION SERVICES DIRECTLY, WHILE OTHERS SERVE ON THE GOVERNING BOARDS OF REGIONAL TRANSPORTATION AUTHOTITIES.

THE REAGAN ADMINISTRATION IS PROPOSING TO REDUCE FEDERAL ASSISTANCE TO LOCAL TRANSPORTATION AUTHORITIES BY ABOUT 75 PERCENT OVER THE NEXT THREE YEARS FROM $4.1 BILLION TO $1.1 BILLION. NO NEW STARTS WOULD BE FUNDED, NO OPERATING ASSISTANCE WOULD BE PROVIDED, AND ALL FEDERAL FUNDING WOULD COME FROM THE 1-CENT GASOLINE TAX.

SUCH A DRASTIC REDUCTION IN FEDERAL FUNDING WOULD FORCE LOCAL TRANSPORTATION AUTHORITIES TO RAISE FARES DRAMATICALLY, REDUCE MANY LINES AND SERVICES, RAISE TAXES TO INCREASE LOCAL SUBSIDIES. IN MANY CASES TRANSIT SERVICES COULD BE SHUT DOWN COMPLETLEY.

THIS CREATES A NUMBER OF ADVERSE EFFECTS IN LOCAL COMMUNITIES, INCLUDING: INCREASED COMMUTING COSTS FOR WORKERS; MORE CONGESTION ON HIGHWAYS, ROADS AND BRIDGES; MORE ENERGY CONSUMPTION AND AIR POLLUTION; REDUCTION OR ELIMINATION OF SERVICES TO THE POOR, ELDERLY AND HANDICAPPED.

NACO SUPPORTED THE 5-CENT INCREASE OF THE FEDERAL GAS TAX, INCLUDING 1-CENT FOR MASS TRANSIT INCLUDED IN THE SURFACE TRANSPORTATION ASSISTANCE ACT OF 1982. NACO CONTINUES TO SUPPORT THIS AGREEMENT AND CALLS UPON THE FEDERAL GOVERNMENT TO CONTINUE ITS COMMITMENT TO FUND LOCAL MASS TRANSPORTATION NEEDS AT AGREED UPON LEVELS.

LET ME ALSO MENTION THAT THE NATIONAL ASSOCIATION OF COUNTIES CONSIDERS NINE OTHER PROGRAM AREAS TO BE OF EXTREME IMPORTANCE TO COUNTIES. THESE INCLUDE:

ASSISTED HOUSING

AS HOMELESSNESS AND OVERCROWDING CONTINUE TO INCREASE, IT IS ESSENTIAL THAT THE $9 BILLION CURRENT FUNDING LEVEL FOR ASSISTED HOUSING BE RETAINED. HOUSING HAS ALREADY TAKEN DRASTIC CUTS IN PREVIOUS BUDGET YEARS.

EMPLOYMENT TRAINING PROGRAMS

THE ADMINISTRATION HAS PROPOSED TO REDUCE JOB TRAINING PROGRAMS FOR THE NEEDY BY $231 MILLION THIS YEAR AND $938 MILLION NEXT YEAR. THESE CUTS WILL DENY SERVICES TO HUNDREDS OF THOUSANDS OF ECONOMICALLY DISADVANTAGED YOUTHS WHILE YOUTH EMPLOYMENT REMAINS CRITICALLY HIGH.

NACo supports maintaining at least the current level of funding for programs under the Job Training Partnership Act. We strongly oppose rescissions and budget cuts particularly in the summer youth and dislocated worker programs.

NACo further supports language in the Administration's 1986 budget request which would modify the JTPA distribution formula so that local areas may receive, as nearly as possible, the same level of summer youth funds from year to year. However, we would encourage Congress to broaden the modificaton so that local areas may receive the same level of basic grant (Title II A) funds as well.

Since 1981 job training programs for the needy have borne more than their fair share of budget cuts. Federal spending in this area has been cut by 54 percent (from $8 billion in 1981 to $3.7 billion currently), while the number of persons living in poverty has increased by 11 percent (from 31.8 million in 1981 to 35.8 million in 1983).

Job training is a way out of poverty for many of America's needy. By providing skills that can lead to employment, job training programs not only help them to become self sufficient but help reduce their dependency on welfare and other support programs.

Again, we urge you to deny the Administration's request for rescissions and budget cuts, and maintain JTPA at its current funding level of $3.7 billion.

Environmental Mandates

Counties are faced with the devastating cost of hazardous waste clean-up, water pollution control, and other mandates imposed by the federal government or the courts. Funding to compensate these costs should be protected and adequate to meet the mandates.

HIGHWAYS AND BRIDGES

ALTHOUGH FEDERAL ASSISTANCE TO COUNTIES COMPRISES A SMALL PERCENTAGE OF COUNTY ROAD AND BRIDGE BUDGETS, IT IS IMPORTANT TO MAINTAIN THE EXISTING URBAN AND SECONDARY ROAD AND ON-AND-OFF SYSTEM BRIDGE PROGRAMS. THESE SYSTEMS ARE VITAL TO INTERSTATE COMMERCE.

LAW ENFORCEMENT

STATE AND LOCAL GOVERNMENTS RECEIVE A VERY SMALL PERCENTAGE OF THE CURRENT $3.5 BILLION JUSTICE DEPARTMENT BUDGET, YET HANDLE 95 PERCENT OF THE CRIMINAL JUSTICE WORKLOAD. MOST COUNTY FUNDS ARE TIED TO FIXED COSTS, LEAVING LITTLE OR NOTHING TO REPLICATE PROGRAMS OF PROVEN EFFECTIVENESS. NACO STRONGLY OPPOSES ANY CUTS TO THE JUSTICE ASSISTANCE, JUVENILE JUSTICE, RUNAWAY YOUTH, AND EXPLOITED AND MISSING CHILDREN PROGRAMS.

MEDICARE

NACO SUPPORTS EFFORTS TO CONTROL COSTS, IN LIGHT OF THE WORSENING FISCAL SITUATION OF MEDICARE'S HOSPITAL TRUST FUND. HOWEVER, PROPOSED CUTS WOULD DIRECTLY AFFECT MORE THAN 1,000 COUNTY PUBLIC HOSPITALS AND SKILLED NURSING FACILITIES THAT ARE THE MAJOR PROVIDERS OF CARE TO THE LOW INCOME ELDERLY. REDUCTIONS IN PAYMENTS TO ALL PROVIDERS FOR LOW INCOME ELDERLY SHIFT COSTS TO MEDICAID AND COUNTY BUDGETS. MEDICARE COST CONTAINMENT PROPOSALS SHOULD TAKE INTO ACCOUNT THE SPECIAL NEEDS OF PUBLIC FACILITIES SERVING A DISPROPORTIONATE SHARE OF LOW INCOME ELDERLY.

PAYMENT-IN-LIEU-OF-TAXES (PILT) AND NATIONAL FOREST PAYMENTS TO COUNTIES

NACO OPPOSES ANY CUTS IN PILT FUNDING, A PROGRAM THAT MINIMALLY COMPENSATES COUNTIES FOR THE LOSS OF TAX BASE FROM TAX-EXEMPT FEDERAL

LANDS. TWENTY-FIVE PERCENT OF ALL NATIONAL FOREST RECEIPTS GO TO COUNTIES FOR ROADS AND SCHOOLS. NACo SUPPORTS CONTINUING NATIONAL FOREST PAYMENTS UNDER THE CURRENT 25 PERCENT PROGRAM.

WELFARE ADMINISTRATION AND PENALTIES

COUNTIES OPPOSE A CAPPED BLOCK GRANT FOR ADMINISTERING FEDERAL ENTITLEMENT PROGRAMS SUCH AS AFDC, MEDICAID OR FOOD STAMPS SINCE THE COSTS OF INCREASING CASELOADS WOULD BE SHIFTED TO STATE AND LOCAL GOVERNMENTS. MORE STRINGENT ERROR RATE PENALTIES ALSO WOULD SHIFT COSTS OF PROGRAMS THAT ARE NATIONAL RESPONSIBILITIES.

WIC

NACo SUPPORTS FULL FUNDING OF THE SUPPLEMENTAL NUTRITION PROGRAMS FOR WOMEN, INFANTS, AND CHILDREN (WIC). MORE THAN 2,000 COUNTY HEALTH DEPARTMENTS ADMINISTER WIC. COUNTIES WOULD HAVE TO SUPPLEMENT PROGRAM CUTS OR DRASTICALLY REDUCE SERVICES. IN TERMS OF HEALTH COST CONTAINMENT, WIC IS AN EFFECTIVE INVESTMENT FOR REDUCING FUTURE OUTLAYS AT ALL LEVELS OF GOVERNMENT. BY REDUCING LOW BIRTH WEIGHTS, INFANT MORTALITY AND MENTAL RETARDATION, EACH $1 SPENT ON NUTRITIONAL SUPPLEMENTS AND EDUCATION (WIC) WILL RESULT IN A SAVINGS OF $3 IN FUTURE MEDICAID COSTS.

MR. CHAIRMAN, WE APPLAUD YOUR EFFORTS. WE APPRECIATE THE GRAVITY OF THE SITUATION AND THE SERIOUSNESS OF THE DECISIONS YOU WILL BE MAKING. WE DO ASK THAT YOU LET THE PRINCIPLES OF FAIRNESS AND EQUITY GUIDE YOU. AND WE ASK THAT YOU TAKE ACTIONS WHICH WILL ENHANCE AND NOT DISMANTLE THE EFFECTIVENESS OF LOCAL GOVERNMENT.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED REMARKS. THANK YOU FOR THE OPPORTUNITY TO DISCUSS OUR POSITION WITH YOU. I ASK THAT MY FULL STATEMENT BE PRINTED FOR THE RECORD. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Chairman **Domenici**. I was thinking that I don't need your applause. What we really need are reductions in some of those programs that you say you can't get along without. But in any event, do any of your organizations have a breakdown on how the cities and counties use their revenue sharing money?

Commissioner **Elfstrom**. We do, yes sir.

Chairman **Domenici**. I wonder if you could make the summary available.

Commissioner **Elfstrom**. I'd be glad to.

Chairman **Domenici**. I know you've described the uses of GRS funding, but I think it varies. I think a lot of it is used for capital improvements—vehicles, purchase of equipment and the like—and the localities that use the funding for capital improvements clearly have a different problem than those that use it another way.

I would appreciate any breakdown you could provide.

Commissioner **Elfstrom**. We will provide that for you, sir.

[The following was subsequently supplied for the record:]

NATIONAL
ASSOCIATION
of
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440 First St. NW, Washington, DC 20001
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FACTSHEET

PRIORITY 1: REVENUE SHARING

General Revenue Sharing was enacted in 1972, during the Nixon Administration, to enable counties and other local governments to assume an increasing share of responsibilities for the federal government.

In the current fiscal year, Revenue Sharing will provide nearly $4.6 billion to local governments, $1.9 billion of that total to counties.

Virtually no strings are attached. Revenue Sharing is the only federal allocation to local governments with the flexibility to be spent in response to local needs. This feature of Revenue Sharing is very important because so much money in county budgets is earmarked for services counties are required to provide in response to some 1,000 mandates.

Many of these services were created in response to national objectives, defined by the federal government — such as clean water, health care, services to the needy, access for the disabled. But while these services come, in many cases, at the direction of the federal government, counties are the mechanism that must carry them out and provide the local network of administration and delivery.

This is the reasoning behind Revenue Sharing. In fact, the concept is not revenue sharing, but tax base sharing, so that counties could assume the costs of national policy objectives. In first enacting the program 13 years ago, the Administration and the Congress recognized that without it, local governments could not carry out both national priorities and respond to the local service needs of their own citizens using only the limited resources available locally.

General Revenue Sharing was begun in a year of federal deficits. It has been repeatedly reauthorized and funded in years of federal deficits. The philosophy behind it is a recognition of the partnership role of county government in the national intergovernmental system, a means of furthering national objectives through local services, a method of providing needed flexibility in the finances of local government.

THE REVENUE SHARING SURVEY

The Revenue Sharing questionnaire was sent to 3,106 counties, in the 48 states with county governments, to obtain information on the importance of GRS to counties.

Counties were asked:

* What percentage of county budget does revenue sharing comprise?
* What are the main services provided with revenue sharing money?
* Is revenue sharing money used to respond to any federal or state mandates (i.e., services or programs required by laws of federal or state governments or as a result of court order)?
* In what ways is revenue sharing used in programs to help the poor or disadvantaged?

Responses have been received from 46 states in more than 20 percent of the counties.

Even these preliminary results draw a very clear picture of the importance of this program to counties across the country: General Revenue Sharing represents an important portion of county budgets throughout the nation. Its elimination or cutback would result in increased taxes or drastically reduced services.

To more effectively analyze the responses in the areas of service provision, they have been divided into six population groups. This breakout also helps demonstrate the flexibility of GPS funds and the importance of that flexibility to counties across the country.

Because GRS funds have few federal requirements attached, they are used by counties to provide a wide variety of vital services to citizens -- services ranging from public transportation and maintenance of roads, bridges, and highways, to health, mental health services, police and law enforcement, programs for the elderly and handicapped, education, to meeting mandates for environmental regulations and solid waste disposal -- to name just a few. Mandates are requirements placed on one level of government by a higher level or by the courts.

According to Census Bureau figures for 1981, revenue sharing equaled more than 10 percent of county property tax revenues, and nearly 3 percent of total county expenditures.

These are national averages reported in 1981. When you look at counties more closely, the picture becomes much more clear.

Preliminary results from the NACo survey show, for example, that more than 25 percent of counties responding derive between 6 and 10 percent of their total budgets (from all revenue sources) from General Revenue Sharing. For 6.6 percent of the counties responding to the survey, Revenue Sharing funds account for more than 16 percent of the annual budget. Another 17 percent of counties responding said that Revenue Sharing funds made up between 10 and 15 percent of their budgets. And some small counties reported to us that General Revenue Sharing makes up more than 25 percent of their budgets.

In general, the survey showed that smaller counties are more dependent on Revenue Sharing than larger ones. Among counties with less than 10,000 population, Revenue Sharing funds accounted for more than 25 percent of the budget in several cases (4 percent). In counties with populations between 10,000 and 49,000, more than 9 percent reported that Revenue Sharing money comprised more than 16 percent of the budget.

While larger counties reported that Revenue Sharing funds amounted to smaller percentages of local spending, these counties have comparatively larger tax bases, provide a greater range of services, and receive comparatively larger amounts of Revenue Sharing allocations. Prince George's County, Md., for example, with a population of 669,088, will receive $11.8 million in Revenue Sharing in the current fiscal year. While that figure represents only 2.1 percent of the county budget, a property tax increase of 16.5 cents per $100 valuation would be required to replace the money if GRS were discontinued.

MAIN SERVICES PROVIDED WITH GENERAL REVENUE SHARING

We asked counties to tell us what predominant uses they made of Revenue Sharing funds. Their responses covered a wide range of services, sometimes linked to county populations. Smaller counties, as a general trend, spent most of their funds in fewer areas, to deliver most basic services -- street, highway, bridge construction and repair, public transporation, water treatment and sewage facilities, power supply, building inspection and maintenance, capital improvements. They provide health and mental health services and public safety that includes police protection and law enforcement, fire and emergency services, jails and legal services and disaster preparedness. As the size of counties increases, the uses counties make of GRS grows, too. Some of the more diverse programs included domestic violence intervention, meals on wheels, utility payments for the destitute, veterans' services, indigent care, and fire protection.

Despite the variation in county size the top GRS priority spending areas of all counties for Revenue Sharing were public works/infrastructure, public safety and health, not always in that order.

Counties also told us they spent Revenue Sharing funds for social services and welfare programs, education, environmental protection, parks and recreation, and for administrative costs.

The wide variety of services funded through Revenue Sharing indicate the importance of the program's flexibility as well as the need to meet community needs as locally defined.

RESPONDING TO MANDATES

Counties were asked in what ways Revenue Sharing funds are used to meet mandates imposed by other levels of government or by the courts. More than 56 percent of the counties responding indicated that these funds were used to assist in meeting mandates in six major categories: jails and detention facilities and operations, mental health and indigent health care, handicapped access regulations, environmental regulations, and solid waste disposal.

The largest percentage of expenditures fell into the area of jail and detention facilities where all counties responding spent from 32.7 percent to a high of 63.8 percent responding to these mandates. This occurred in counties with populations of 100,000 - 249,000. Because counties handle 95 percent of the criminal justice workload, much of this money was spent to build or expand jail facilities to meet federal mandates.

SERVICES TO THE POOR AND DISADVANTAGED

More than 57 percent of the counties responding to the survey said portions of their revenue sharing money aided poor and/or disadvantaged residents. In the group of counties between 10,000 and 49,999 in population, more than 98 percent reported use of revenue sharing money to assist the poor and disadvantaged. All counties that responded to this question indicated that the majority of funds used is in the area of health, mental health care, nursing homes, hospitals and indigent care. Proportions of counties using GRS funds for the poor and disadvantaged in the area of health ranged from 50 percent to a high of 82.7 percent for counties with populations of 100,000 - 249,000.

A large share of these funds was also used to provide free public transportation to the needy and elderly as well as improved and free services from emergency vehicles, including ambulance services. Counties in all population categories spent funds to assist the elderly with a variety of services, including senior citizen centers, home health care, meals-on-wheels, and emergency food and shelter. Other categories include spending on nutrition programs, child care, and special education and vocational programs for the handicapped.

Programs to assist the poor and disadvantaged classified in the survey as miscellaneous expanded as the county population increased. This trend indicated the increased and broader service load carried by larger counties. Counties in the larger population categories sponsor programs for their needy population from GRS funds that include: alternatives to violence, drug abuse and alcohol rehabilitation, veterans services, emergency food and shelter, utility payments for the destitute, programs for battered wives and abused children, handicapped education, and the funding of a wide variety of social service agencies.

The following charts are based on information gathered through a nationwide survey of county governments.

The information is broken down and presented according to county populations, as follows:

CATEGORY A - populations under 10,000

CATEGORY B - populations between 10,000 - 49,000

CATEGORY C - populations between 50,000 - 99,000

CATEGORY D - populations between 100,000 - 249,000

CATEGORY E - populations between 250,000 - 499,000

CATEGORY F - populations between 500,000 - higher

			POPULATION GROUPS				TOTAL AVG.
MAJOR SERVICES	A	B	C	D	E	F	%
Public Works/ Infrastructure	64%	57%	57%	39%	29%	47%	53.9%
Health	32%	26%	18%	17%	18%	26%	24.3%
Public Safety	29%	35%	31%	31%	50%	38%	34.1%
Community Dev. and Planning	2%	1%	0	1%	0	0	1.2%
Social Service and Welfare	14%	12%	18%	16%	11%	12%	13.3%
Manpower and Training	0	0	0	0	0	3%	.16%
Parks and Recreation	5%	3%	1%	6%	0	9%	2.9%
Education	13%	11%	10%	16%	13%	9%	10.6%
Environment	9%	10%	13%	10%	0	0	7.6%
Administration	15%	16%	20%	19%	26%	18%	15.6%
Misc.	1%	.7%	0	0	0	0	.49%
Total Responses	87	289	84	70	38	34	602
of All Counties	12%	18.4%	22.4%	32.1%	*46.1%		19.7%

*Census bureau combines both categories

SERVICES TO THE POOR AND DISADVANTAGED FUNDED BY GENERAL REVENUE SHARING

OP. ROUPS	TOTAL % USED	EMERG. VEHICLES & PUBLIC TRANS.	ELDERLY & SENIOR CITIZENS CENTERS	INDIGENT, HEALTH, MENTAL HEALTH, NURSING HOME, HOSPITAL	CHILD CARE	NUTRITION	HANDI-CAPPED	MISC: SERVICE EXAMPLES	
A	57.4%	44%	48%	50%	10%	22%	14%	8%	housing public defender education
B	98.8%	27.9%	52.3%	56.9%	12.7%	22%	13.9%	20.9%	drug abuse child abuse alcoholism veterans social service agencies alter. to violence
C	59.5%	22%	48%	68%	10%	16%	6%	28%	WIC emerg. shelter runaway domestic violence veterans rape utilities for destitute
D	41.4%	13.7%	20.6%	82.7%	13.7%	24%	17.2%	34.4%	battered wives emergency housing legal aid
E	55.26%	9.5%	33.3%	57.1%	19%	9.5%	14.2%	38%	education veterans handicapped education drug, alcohol abuse domestic violence youth employment
F	61.7%	19%	19%	52.3%	19%	9.5%	9.5%	38%	AFDC veterans gen. assist employment ombudsman

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NEWS
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COUNTIES COMMENT ON REVENUE SHARING

Schenectady County, New York
population: 149,000

Revenue sharing funds are an integral part of Schenedtady County's budget. To the extent present funding is eliminated, the county would have to raise real property taxes by 36 percent just to maintain current program levels, or reduce services in non-mandated areas such as health, conservation, general environment, culture and recreation, or public safety.

Milwaukee County, Wisconsin
population: 948,686

Milwaukee County's continued use of GRS to hold the line on the property tax has, for example, afforded the county the ability to maintain direct property tax support in the amount of $17.7 million for medical assistance; $300,000 for youth employment; and $400,000 to match the federal 50 percent pass-through for economic assistance administration and $9.8 million for mass transit.

Dallas County, Texas
population: 1,701,750

If GRS were discontinued, Dallas County could probably maintain its current service levels for one year by relying on its resources. However, after this brief adjustment period, the county would then be forced to raise taxes/reduce service levels. (Since Texas limits tax increases to no more than 8 percent per year, the County Budget Officer estimates that it would take 3 to 5 years of tax increases for the county to completely offset the revenue loss of GRS. The elimination of GRS would almost certainly result in some form of service level reduction.)

Union County, New Jersey
population: 504,000

In a climate of decreasing state and federal grants and reimbursement programs, GRS serves as a security source of revenue to balance budgets and maintain essential and desired services to residents. If elimination of GRS eventuated, there is no question that the services would have to be discontinued and taxes increased.

Jefferson County, Kentucky
population: 675,000

GRS forms a key component (12 percent) of the county's annual revenue budget. Loss of all or a substantial portion of this revenue source would represent a serious fiscal crisis for the county and severely impair its ability to deliver statutorily mandated basic services.

St. Joseph County, Michigan
population: 56,083

Dollars are most efficiently used at the local level. Therefore GRS funds buy more than they would if diverted into federal programs. GRS is not funding extra services but very essential ones, and the bottom line is that the money must come from somewhere. An elimination of GRS translates into an ever-increasing tax burden for the citizen.

Powell County, Montana
population: 6,700

State and local government are having a serious financial problem, as well as the federal government. Local government has already made every possible cut. There is no more meat to pick off the bones. When mandated programs are directed to local government, funding must also accompany the programs. If GRS is cut, it will cripple almost every entity that is a recipient of the program.

Newton County, Texas
population: 13,175

In a small rural county like ours, there is no way to increase revenues. Our tax rate already exceeds that of all the surrounding counties. There is no way to reduce services which are required under the constitution and laws of the state. The increased cost of law enforcement and the judicial system, plus the inflation which has affected everything we do, has kept us struggling to maintain the status quo. We can't afford to lose any revenue.

Pendleton County, West Virginia
population: 7,900

If GRS is cut, this county will lose 31 percent of its budget and the following organizations will be in a serious situation of surviving: Housing Program, Public Works Construction, Senior Centers, Emergency Rescue Squads, Fire Departments, Libraries, Public Transportation, Community Centers, Committee on Aging, and Nutrition Program.

Chowan County, North Carolina
population: 12,558

Elimination of GRS would result in a tax rate increase of 9.64 per $100 valuation. This would seriously deface the quality of governmental programming as well as county economic development.

Washburn County, Wisconsin
population: 13,174

Elimination of GRS would cause us to cut health and social services; or possibly police protection would have to be reduced below minimum acceptable standards.

Rowan County, Kentucky
population: 19,046

If GRS is cut out, the small rural counties might as well close up.

Sonoma County, California
population: 313,240

GRS funds provide increased and improved local services that can't be financed through existing local financial resources. These funds are a recognition by the federal government that local governments are essential to this nation's economic and societal vitality.

Winnebago County, Wisconsin
population: 133,285

If GRS were to be discontinued, the county tax rate would be increased 25.4 cents per $1,000 of equalized valuation, or approximately an 8 percent increase in the county levy. Also, revenue sharing funds were utilized for approximately a two-year period to help local municipalities in purchasing and construction of industrial parks and aid in the creation of new employment within the county.

Wood County, Ohio
population: 107,280

GRS funds return federal dollars to benefit all residents of our area. This program is a very visible means of showing the taxpayers the "federal dollars" at work. Wood County's bridges are all nearly 100 years old. GRS funds have provided the means to replace these structures. Curtailment of the GRS program would mean a drastic reduction in bridge construction, to the detriment of the traveling public.

Davidson County, North Carolina
population: 113,162

Our county is also being faced with losing other major revenue sources and the property tax cannot be required to meet all the loss. Loss of GRS would require an increase in property tax of 4 to 5 cents.

Northampton County, Pennsylvania
population: 225,000

The loss of GRS funds would result in a 2.24 mill (12.5 percent) increase in the real estate tax rate. The county's real estate tax base is not growing at the same rate as the growth in spending. This is causing an increased burden on the taxpayers of the county.

Tuscaloosa County, Alabama
population: 146,900

The GRS program is essential to Tuscaloosa County in that it represents 11 percent (approximately $1 million) of the general fund budget. Any cuts in revenue sharing funds will have to be absorbed by corresponding cuts in services provided.

Oceana County, Michigan
population: 22,002

Our county, like so many other small rural counties, has a depressed economy, low per capita income, and a limited property tax base for income. GRS funds are necessary to balance the county budget.

Lyon County, Iowa
population: 36,843

If GRS were discontinued, we would be unable to meet our requirements because of the economic conditions in the farming area which is 99 percent of the business in our county.

Dallas County, Arkansas
population: 10,515

As long as the federal government insists on certain guidelines for county government, we feel that we will have to have the financial help to implement the guidelines. County governments do not have the local revenue to implement the standards set by the federal government.

Cowlitz County, Wisconsin
population: 80,000

(1) Loss of federal revenue sharing dollars would put several social programs out of business, such as Emergency Support Shelter for women and children. (2) Future capital projects in water and sewer and solid waste would not be possible. (3) Cowlitz County has always used federal revenue sharing for capital improvements and social programs. None of our federal revenue sharing money goes into the general fund to pay for operating costs.

Dodge County, Wisconsin
population: 76,743

Loss in federal resources could have enormous fiscal impacts on Dodge County property taxes. We are in a fiscal position where we cannot afford such cuts. Presently we are faced with making several capital improvements, our taxable property base is experiencing little to no growth, and we have few alternatives to generate financial resources from other types of sources. Many of our services are for those that are indigent, who have little ability to pay for such services. Cuts in the above grant areas, coupled with proposed changes in tax codes like non-deduction for interest earnings on municipal indebtedness, will serve a heavy blow to our financial position.

Walker County, Alabama
population: 68,600

GRS is the most important federally funded program available to county government. County government will be drastically hurt if this program is eliminated. Many vital services provided to citizens at the local level will have to be severely cut back or eliminated. It must be remembered that county government does not have the authority to levy new taxes to take on additional funding of programs that are cut.

Coos County, Oregon
population: 61,750

Rural Oregon is still in the throes of economic recession. The primary industry, timber production, has not generated the same level of jobs and revenue as it did in 1981-82. Taxes are not being paid and people are still being laid off. The county, therefore, has few reserves on which to draw to offset continual reductions in state and federal support.

Dekalb County, Alabama
population: 55,000

Loss of GRS to this county would almost mean the complete loss of all service programs and the return to general governmental operations only.

St. Mary's County, Maryland
population: 65,000

GRS has been an efficient and effective way to channel back federal tax dollars to aid local government. If priorities at the federal level dictate a change in current partnership policies, then we will have little choice but to continue funding local services with added taxes.

Twin Falls County, Idaho
population: 54,533

Idaho passed a law in 1979 which limits our power to tax to 5 percent over our previous year's dollar amount of tax. Since inflation is higher than that, we cannot meet the rising costs of material necessities or labor. Revenue sharing money is used to fulfill needs which are essential to our county and could not be funded through our restricted tax levy amount.

Counties Comment on Revenue Sharing
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Greene County, Tennessee
population: 54,422

$200,000 are committed annually toward payment of construction costs of new county jail ordered by U.S. federal court. GRS funds are used by school system to strengthen program of instruction for students by providing funds to supplement EGEA and local funds.

Greene County, Ohio
population: 129,796

Crippled children grant is mandated by the state. Approximately 83 percent of the county's budget now goes to state mandated items such as courts, jails, welfare and public defender. Because of this, 75 percent of GRS is used to supplement the General Fund.

Chairman Domenici. Do the cities have a similar breakdown?

Mayor Voinovich. We have one for 1983 that we can send over. I would suspect that it's probably the same.

Chairman Domenici. I'd appreciate that.

[The following was subsequently supplied for the record:]

National League of Cities

Policy Working Paper

The Importance of GRS Continues and the Need for Renewal Increases

by

Francis Viscount

WP-10

This document contains an analysis, by city-size and region, of the 663 direct member city's responses to NLC's General Revenue Sharing Questionnaire.

One of a series of staff working papers analyzing policy issues of importance to the Nation's cities and towns.

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PREFACE

The following report represents the final results of a survey of city officials on the General Revenue Sharing program. The survey was conducted by the Office of Policy Analysis and Development of the National League of Cities. Questions were asked on the importance of General Revenue Sharing funds relative to local revenues, the use of GRS, and the actions respondent cities would have to take to compensate for a loss of this federal assistance. The survey questionnaire was mailed to the over 1,000 cities that are members of NLC. This report analyses the 663 responses received by December 31, 1982. The survey instrument, analysis, and report were prepared by Francis Viscount, Urban Economist of the National League of Cities' Office of Policy Analysis and Development.

SUMMARY

The following report presents the findings of the National League of Cities survey of its direct member cities on the importance of General Revenue Sharing and the likely consequences, for cities, were it not to be renewed in September, 1983. Of the almost 1,100 direct member cities surveyed, over 700 responded. This report presents an analysis of the first 663 received.

The survey was designed to be of assistance to the Congress in their consideration of reenactment of the program. Three basic questions were asked: How important is GRS to your city's fiscal condition? How do you currently use GRS funds in your city? What major action would you take to compensate for the loss of GRS funds?

The major findings clearly indicate GRS is important to all cities, in all regions of the country.

1. GRS funds represent 6.63 percent of locally-raised revenue. It represents 8.93 percent for cities under 10,000 and 4.5 precent for cities over 500,000. Although its relative importance declines as city size increases, it is not insignificant for even the largest cities. It is also a larger share of local budgets for cities in the South than for cities in other regions.

2. If local property tax rates were raised to offset all GRS funds received, increases of over 23 percent would be necessary. The highest increases would be in the smallest cities and for cities in the West and South.

3. For almost one-third of the cities surveyed, GRS is their only federal grant. For cities under 10,000, this is true of 62 percent of them. On a regional basis, the distribution is fairly even, ranging between 24 percent and 35 percent.

4. Overall GRS is almost evenly split between supporting capital or operating programs. Smaller cities favor capital projects slightly, but larger cities use it more for operations. Other than in the Northeast, cities have generally favored operations over maintenance. Approximately two-thirds of cities surveyed used funds for public safety and general government, however, the other one-third is a vivid example of how cities will respond to needs if given flexibility.

5. If GRS were terminated, only 12 percent of the cities responding would raise taxes solely to offset such a revenue drop. Forty-two percent would cut services only and forty-two percent would do a combination of both raising fees and cutting services. Small cities are more likely to raise taxes as are Northeastern cities. Large cities are less likely to cut capital spending than small cities. Western cities are most likely to cut services and programs and least likely to raise taxes.

6. Approximately one-quarter of the cities responding said they would lay off personnel. Medium to large cities are most likely to lay off employees, as are cities in the West and Midwest.

GRS can thus be viewed as the glue that holds the fiscal fabric of many cities together. It is widely needed and used by cities of all sizes in all regions of the country. The result of NLC's survey make a compelling argument that the Congress should move quickly to assure its reenactment before local FY 84 budgets must be adopted.

PURPOSE AND METHODOLOGY

The National League of Cities (NLC) undertook a survey of its direct member cities during the Fall of 1982, to answer three basic questions concerning the General Revenue Sharing (GRS) program.

- How important is the program to your city's fiscal condition?
- What are the major services or types of projects financed with General Revenue Sharing funds?
- What would be the most likely consequence for your city if General Revenue Sharing were not renewed? (The current program's authorization expires September 30, 1983.)

It was anticipated that the answers to these questions would help the Congress in considering renewal of the program during the first session of the 98th Congress.

The questionnaire was mailed to the almost 1,100 direct member cities of the NLC. Over 700 responses were received. Responses were analyzed on the basis of city-size and region. A copy of the questionnaire is included as Appendix A of this report.

The only subjective question on the survey, number 6, asked cities to indicate at least one important use of GRS funds during the past year. Many cities provided more than one, but significantly over 90 percent provided at least one. When there were multiple entries, the three most significant, in terms of funds committed, were used to develop the analysis of responses.

Before describing the responses and reporting on the findings, three caveats are important. The first concerns the interpretation of regional findings. The second concerns implicit policy questions raised by the results of the survey and analysis. The third caveat relate to the extent to which responses represent a scientific sample and, the findings should be viewed as representative, rather than conclusive.

First, GRS is an entitlement program which has funds distributed automatically based upon a three or five factor formula. Basically, the formula allocates funds by considering population, wealth and tax effort. The region in which a city is located has no impact on the allocation of funds, and therefore, the regional analysis included should be considered as descriptive of program outcomes not as determining or affecting them. On the other hand, city size does influence the total GRS allocation a city receives and therefore, affects a city's answers to the survey questions.

The second caveat concerns the extent to which there are implied policy options in this study. There are none. It was the intent of the survey to present findings concerning the usefulness of the existing program, and not for cities to present a series of theoretical options for program redesign. No questions about the formula were asked, nor was any analysis undertaken. Questions concerning equity, the inclusion or exclusion of particular local taxes or changes in the program regulations were not part of the survey or analysis.

The third caveat is that responses to this survey do not constitute a scientific sample and therefore should be considered descriptive. Tables 1 and 2 provide the distribution of the city's responses used in the analysis, included average populations, entitlements and average per capita entitlement. The variations in per capita entitlements shown in table 1 are similar to distributions found in other surveys. The Northeast per capita entitlement figures in table 2 is very high. It reflects the inclusion of New York City, Philadelphia and Pittsburg, cities with high tax effort and correspondingly high entitlements and the general lack of responses from smaller Northeast cities.

TABLE 1

Summary Information

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500
Number of cities reporting (total = 663)	116	332	172	24	19
Average population (in thousands)	5.8	27.0	100.3	332.4	1,320.0
Average GRS entitlement (in thousands)	$104	$458	$1,619	$7,131	$33,338
Per capita entitlement (in dollars)	$18.29	$17.40	$16.14	$21.00	$25.26

Source: National League of Cities, GRS Questionnaire, Fall, 1982

TABLE 2

Summary Information

(region)

	North-east	South	Mid-west	West
Number of Cities total = 663	57	260	206	140
Average population (in thousands)	202.6	73.1	73.6	101.3
Average GRS entitlement (in thousands)	$6,441	$1,438	$1,190	$1,864
Per capita entitlement (in dollars)	$31.79	$19.67	$16.16	$18.40

Source: National League of Cities, GRS Questionnaire, Fall, 1982

However, the findings of the survey are significant because the cities included in the survey receive over one-half of the total GRS entitlements received by cities, $1.24 billion out of $2.3 billion.

HOW IMPORTANT IS GRS TO YOUR CITY'S FISCAL CONDITIONS?

Three dimensions of the fiscal value of GRS to cities were probed. Its overall importance was guaged by measuring GRS against locally-raised revenues. The second dimension concerned the effects on local property tax rates if they were increased to compensate for the loss of GRS funds. The third was whether GRS was the only federal aid the city received.

A. GRS as share of locally-raised revenues.

Tables 3 and 4 provide the city-size and regional distribution of responses to the first dimension, GRS as a share of locally-raised revenues. Overall GRS equals 6.63 percent of locally-raised revenues. This finding compares favorably to the recent Census Bureau reports that indicate GRS equals 6.7 precent of locally-raised revenues for all cities. Clearly GRS makes an important and significant contribution to local fiscal stability.

TABLE 3

GRS Receipts As A Percent Of
Locally-Raised Revenue
FY 1982
(in percent)*

(population in thousands)

Range	Under 10	10 to 50	50 to 249	250 to 499	Over 500	Total
0-.99%	1	2	1	-	-	1
1-4.99%	28	42	46	33	58	41
5-9.99%	40	43	43	58	42	43
10% +	31	13	9	9	-	15
Average	8.93	6.54	5.70	5.56	4.51	6.63

*Numbers may not add to 100 due to rounding

Source: National League of Cities, GRS Questionnaire, Fall, 1982

TABLE 4

GRS Receipts As A Percent Of
Locally-Raised Revenue
FY 1982
(in percent)

(region)

Range	North-east	Mid-west	South	West	Total
0-.99%	-	1	1	1	1
1-4.99%	58	55	24	45	41
5-9.99%	26	35	50	48	43
10% +	16	9	25	6	15
Average	5.48	5.62	8.30	5.53	6.63

Source: National League of Cities, GRS Questionnaire, Fall, 1982

The distribution of the responses is also significant. GRS is most important for the smallest cities. For almost one-third of them, GRS equals more than 10 percent of locally-raised revenues. On average it equals almost 9 percent for all cities under 10,000.

As city size increases, the share of locally-raised revenues represented by GRS decreases. However, even for the largest cities it equals 4.5 percent on average. For 43 percent of the largest cities surveyed, GRS equals over 5 percent of locally raised revenues.

On a regional basis, the findings mainly reflect the large number of small cities in the South participating in the survey. The number of large cities in the Northeast also is reflected by the fact that for 58 percent of the cities Northeast surveyed, GRS represents less than 5 percent of locally-raised revenue.

B. Local property tax rates.

Often it has been asserted that cities could tap their local property-tax base if GRS were ended. To test this assertion, cities were asked how much they would have to increase property tax rates to compensate for a loss of GRS funds. It must be remembered that local property tax bases do not change if federal programs end and therefore any increase in property tax revenues would require increases in the rate.

Responses to this question make a compelling case against such an assertion. If GRS were ended, local property tax rates for the smallest cities would need to be increased 50 percent on average. For all cities over 10,000 rates would need to increase between 23 percent and 27 percent. Table 5 summarizes these findings.

TABLE 5

Average Property Tax Rate Increase
If GRS Is Terminated

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500
Percent rate increase	50.73	26.13	23.70	27.58	23.11
Number of cities	100	283	140	18	16

Source: National League of Cities, GRS Questionnaire, Fall, 1982

When viewed in a regional basis the findings differ substantially. Northeastern cities indicate they would need to raise their taxes by only about 9 percent, while western cities would need to raise their rates by almost 50 percent. Midwestern cities tend to be closer to the Northeast, while those in the South tend to be closer to the West. These findings generally reflect the relative importance of the property tax in different regions of the United States, with the exception of those states where rate increases are not permitted, e.g., California, Idaho, Massachusetts, etc. Generally speaking, the South and West have lower tax rates, assessment ratios and per capita property tax bases than the Northeast and Midwest and therefore require larger rate increases to raise sums equal to GRS. Table 6 summarizes these results.

TABLE 6

Average Property Tax Rate Increase If GRS Is Terminated

(region)

	Northeast	South	Midwest	West
Percent Rate Increase	8.87	37.05	17.75	49.77
Number of Cities	52	235	186	84

Source: National League of Cities, GRS Questionnaire, Fall, 1982

C. GRS as only grant.

General revenue sharing is particularly important for smaller communities because, for many, it is the only federal aid they receive. For cities under 10,000, 62 percent indicated GRS was the only federal grant they received. For cities between 10,000 and 50,000 population, 39 percent indicated it was their only federal grant. And for cities between 50,000 and 250,000, 5 percent of the cities indicated that it was their only federal grant. Table 7 displays these findings.

TABLE 7

GRS Is Only Federal Grant

(population in thousands)

	Under 10	10 to 50	50 to 250
Number of Cities	72	130	8
Percent of total cities reporting	62	39	5

Source: National League of Cities, GRS Questionnaire, Fall, 1982

On a regional basis, between one-quarter and one-third of cities in each region receive GRS as their only grant. Overall, 32 percent of the cities surveyed indicated GRS is their only federal grant, thus making its continuation even more critical to them. Table 8 displays this data.

TABLE 8

GRS Is Only Federal Grant

(region)

	Northeast	South	Mid-West	West
Number of Cities	17	86	73	34
Percent of total cities reporting	30%	33%	35%	24%

Source: National League of Cities, GRS Questionnaire, Fall, 1982

9

HOW ARE GENERAL REVENUE SHARING FUNDS USED?

We asked cities to name the major purposes for which they used GRS funds during the past year. The variety of programs and projects was a real reflection of the program's flexibility. Some of the more diverse ones included downtown revitalization, senior citizen programs, meals on wheels, public facility access improvements for the handicapped, shared taxi, supplemental income for indigents, and aiding community based action agencies.

Although there were substantial numbers of cities which used GRS liberally in both capital and operating programs, two trends with respect to city size were apparent. As the size of cities increases there is a tendency not to use GRS wholly for capital projects. Over one-third of cities under 10,000 used GRS wholly for capital projects, while no city over 500,000 did and only 8 percent of the cities from 250,000 to 500,000 did.

A reverse trend was true for operating programs. The larger the city the more likely it would allocate its funds solely to operating programs. Seventy-nine percent of the cities with populations over 500,000 allocated their funds to operations while only 29 percent of those with populations under 10,000 did. Table 9 displays these data.

TABLE 9

Cities Use of GRS Funds
(in percent)

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500	All Cities
Capital only	36	26	16	8	-	24
Operations only	19	29	44	54	79	33
Both	45	45	40	38	21	43

Source: National League of Cities, GRS Questionnaire, Fall, 1982

On a regional basis the pattern of answers does not provide clear trends. The Northeast cities, which tend to have infrastructure in place and higher levels of tax effort, exhibit a preference for supporting operations rather than making capital improvements with GRS and thus hold down tax rates. The reverse is generally true in the South. The Midwest exhibits a slight bias toward operating expenditures but the West shows the opposite. The answers from Western cities appear to reflect the fiscal pressure created by the various tax and expenditure limitations that have been enacted in those states. Table 10 displays these results.

TABLE 10

Cities Use of GRS Funds
(in percent)*

(region)

Use	Northeast	South	Midwest	West	Total
Capital only	9	32	21	19	24
Operating only	61	22	29	49	33
Both	30	46	50	31	43
percent capital	45.2	55.7	57.8	56.8	-
percent operating	48.4	40.9	36.8	39.8	-

*Numbers may not add to 100 due to rounding

Source: National League of Cities, GRS Questionnaire, Fall, 1982

A. Capital programs.

The variety of use of GRS funds in capital programs is substantial. Cities bought administrative computers and communication facilities, paved streets, funded local public transit and revitalized their downtowns. Tables 11 and 12 provide a glimpse of the numbers of cities by size and region that used GRS funds for capital expenditures. Smaller cities tended to be more innovative than larger cities. On a regional basis no divergent patterns were apparent.

TABLE 11

Major Capital Uses of GRS Funds
FY 1982
(in percent)

	Under 10,000	10,000 to 50,000	50,000 to 250,000	250,000 to 500,000	Over 500,000
Economic development	14	7	8	-	-
Meet federal requirement	3	1	3	-	-
Street repair	29	34	32	50	-
Transit	2	5	6	10	-
General capital*	53	53	51	40	100

Numbers may not add to 100 due to rounding

*Includes parks, land, buildings and major equipment

Source: National League of Cities, GRS Questionnaire, Fall, 1982

TABLE 12

Major Capital Uses of GRS Funds
FY 1982
(in percent)

(regions)

	North-east	South	Mid-west	West
Economic development	-	11	9	3
Meet federal requirements	-	2	2	2
Street repair	42	36	32	28
Transit	5	2	7	5
General capital*	53	50	50	62

Numbers may not add to 100 due to rounding

*Includes parks, land, buildings, major equipment

Source: National League of Cities, GRS Questionnaire Fall, 1982

B. Operating programs.

The value of the flexibility of GRS funds is apparent by the range of operating programs supported with them. A great number of human needs are met with these funds. Cities of all sizes commit substantial funds to senior citizens, alternative transit programs, social services and emergency relief, and external community-based social service agencies. On the basis of city size, generally one-third of all GRS is used for these programs, while two-thirds is used to support general government and public safety activities. Table 13 summaries these answers.

TABLE 13

Major Operations Funded with GRS
FY 1982
(in percent)

(population)

	Under 10,000	10,000 to 50,000	50,000 to 250,000	250,000 to 500,000	Over 500,000
Alternative transit	2	3	1	-	-
Health	5	6	5	3	17
Recreation	8	7	7	10	3
Senior citizens	10	9	9	7	3
Social services	8	11	11	11	14
Public safety	39	40	50	41	31
General government*	28	24	17	28	31

Numbers may not add to 100 due to rounding

*Includes administration, planning, sanitation, transportation

Source: National League of Cities, GRS Questionnaire, Fall, 1982

On a regional basis, three of the four regions exhibit this similar pattern. However, Northeastern cities spend 82 percent of these funds on public safety and general governmental functions. This reflects the generally higher amount of fiscal stress found in Northeastern cities which makes them the most vulnerable to termination of GRS. Table 14 displays these findings.

TABLE 14

Major Operations Funded With GRS
FY 1982
(in percent)

(region)

	Northeast	South	Midwest	West
Alternative transit	2	1	5	1
Health	2	8	5	6
Recreation	3	8	5	7
Senior Citizens	3	5	16	9
Social services	8	9	11	15
Public safety	42	42	39	49
General government*	40	27	21	13

Numbers may not add to 100 due to rounding

*Includes administration, planning, sanitation and transportation

Source: National League of Cities, GRS Questionnaire, Fall, 1982

WHAT WOULD BE THE CONSEQUENCES OF TERMINATING GRS?

The questions in this section of the questionnaire explored two aspects of how cities would adjust to the loss of GRS funds, how they would adjust their budgets and if they expected to lay off personnel. Budget options are rather limited. Cities can cut spending, raise revenue or do both. Cities could spend down surpluses or borrow in the short term, but ultimately they must make more permanent policy decisions. Related to expenditure reductions is the likelihood of lay off because in most cities around 70 percent of operating costs are for personnel.

Overall cities indicated that most of the loss of GRS funds would be quickly followed by service cutbacks. Only 12 percent of the cities surveyed indicated a willingness to raise fees and taxes to completely offset the loss of GRS. On the other hand 42 percent of the cities indicated they would rely solely on capital and operating budget cuts to offset the loss of GRS. The bulk of the remaining cities said they would do a combination of both revenue increases and expenditure cuts. The survey did not ask about the precise mix of this latter course, however, it is reasonable to surmise that over half the loss of revenue will result in service reductions, particularly during these bad economic times.

The subsequent two tables present the actions cities intend to take if GRS were to end. Table 15 displays those choices by city-size. From the responses, three general findings can be drawn. The smaller the city the more likely it will consider raising taxes to compensate for a loss of GRS. Almost three times as many small cities considered this their most likely response. A second finding is that fewer large cities will reduce capital expenditures than will small cities. In fact as population increases the ability to reduce capital spending decreases.

TABLE 15

City Actions to Compensate For Loss of GRS (in percent)*

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500	Total
Increase taxes	18	10	10	-	5	11
Increase fees	-	1	1	4	-	1
Reduce capital expenditures	27	32	21	17	5	27
Reduce operating expenditures	8	14	19	17	21	15
Increase revenue and cut spending	40	41	43	58	47	42
Use reserves	4	1	2	-	-	2
Increase debt	1	-	1	-	-	-
Other	2	1	4	5	5	2

*Numbers may not add to 100 due to rounding

Source: National League of Cities, GRS Questionnaire, Fall, 1982

A similar pattern appears when cutting both capital and operating programs is the preferred response. Forty-six percent of cities between 10 and 50 thousand would offset a loss of GRS solely with spending cuts, but only 26 percent of the largest cities believe they can do the same.

The most prominent choice for all cities is a combination of raising revenue and reducing expenditures. However, it is likely that cities contemplate mostly increasing fees rather than taxes to raise revenue. This would be consistent with the findings of various fiscal surveys recently conducted, including NLC's, in which raising fees and charges was twice to three times as popular for raising local revenues as was raising taxes. However, because fees are still a small share of total city budgets, it is likely that there will need to be more dollars of service reductions than increases in revenue.

Table .6 provides a regional distribution of responses. The two most striking findings are that relatively more cities in the Northeast would be compelled to raise taxes to offset the loss of GRS than in any other region. Almost one-third of the Northeastern cities would not be able to reduce services and programs further than they currently have. Only 14 percent of the Northeastern cities indicate they would balance their budgets with program and service cuts. This clearly indicates the fiscal dilemma facing these cities, but this is consistent with the survey finding that Northeastern cities use the greatest share of GRS for basic services, general government and public safety.

TABLE 16

City Actions to Compensate
For Loss of GRS
(in percent)*

(region)

	North-east	South	Mid-west	West	Total
Increase taxes	30	10	9	6	11
Increase fees	2	-	2	1	1
Reduce capital expenditures	7	29	27	33	27
Reduce operating expenditures	7	9	18	25	15
Increase revenue and cut spending	53	49	39	32	42
Use reserves	2	2	2	1	2
Increase debt	-	-	2	-	-
Other	-	2	2	3	2

*Numbers may not add to 100 due to rounding

Source: National League of Cities, GRS Questionnaire, Fall, 1982

Alternatively, Western cities, under the burden of many tax and expenditure limits, indicate they are least able to raise taxes and over half, 58 percent, of the cities must rely solely on expenditure cuts to offset a loss of GRS funds. One-third of Western cities indicate capital spending would be cut, a particularly painful decision since the population growth in the West continues to require additions to existing capital stock.

The cities of the Midwest and South regions array themselves close to the overall averages, however, this means significant cuts in services and limited ability to raise taxes to offset the loss of GRS.

The second dimension of how cities would respond to the end of GRS concerns whether they would lay off municipal employees. Of the total number of cities reporting, 174, or 26 percent, indicated that they would have to lay off employees. These cities were from every population group and region. Generally, as the population of cities increased, the number of cities estimating that they would need to lay off employees increased. Strikingly, half the cities between 250 and 500,000 thought lay offs would occur if GRS ended. Similarly, as the size of the city increased the average number of lay offs also increased. For cities under 10,000, the average number of lay offs estimated was five; while, for cities between 250,000 and 500,000, the average number of lay offs approached 189. These figures are summarized in Table 17.

TABLE 17

Cities Reporting Lay Offs Likely
If GRS Eliminated

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500	Total
Number of cities	24	86	47	12	5	174
As a percent of total cities reporting	21	26	27	50	26	26
Average number of lay offs	5	16	57	189	698	-

Source: National League of Cities, GRS Questionnaire, Fall, 1982

The regional distribution of cities expecting lay offs also contains some surprises. Because of the recession a high rate of lay offs in the Midwest would be likely and this was found. However, that rate was matched by cities in the West. The average number of lay offs is actually close between these two regions, 51 employees in the Midwest and 43 in the West.

The number of Southern and Northeastern cities anticipating needing to lay off if GRS ends is quite similar, 20 percent and 18 percent respectively. However, the average number of lay offs in the South is three times the number in the Northeast. These figures are on Table 18. This is consistent with the earlier finding that Northeast cities would be least able to cut services if GRS funds stopped coming.

TABLE 18

Cities Reporting Lay Offs Likely
If GRS Eliminated

(region)

	Northeast	South	Midwest	West	Total
Number of cities	10	52	66	46	174
As a percent of total cities reporting	18	20	33	33	26
Average number of lay offs	27	83	51	43	-

Source: National League of Cities, GRS Questionnaire, Fall, 1982

CONCLUSION

These results clearly indicate the importance of revenue sharing and the very difficult actions cities would have to take to compensate for the loss of these funds. Revenue sharing has become in many ways the glue that holds the precarious fiscal situation of many cities together. Existing resistence to higher taxes would ensure that important services would have to be reduced, capital spending for infrastructure postponed and municipal employees laid off. These findings dramatize how GRS is important to all cities and the need for Congress to ensure reenactment of the program early in its current session.

APPENDIX A

NATIONAL LEAGUE OF CITIES
GENERAL REVENUE SHARING QUESTIONNAIRE

RETURN TO:
National League of Cities
Office of Policy Development
1301 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

BY OCTOBER 8, 1982

CITY OF ____________

STATE ____________

CONGRESSIONAL DISTRICT(S)__
____

POPULATION____________
(Figure reported for GRS Entitlement Period #14)

ENTITLEMENT FOR EP #14 $____
____

FISCAL YEAR BASIS ________
(e.g., July-June)

I. GRS and City Budgets

1. What percent of general tax supported/own-source city revenues (excluding enterprise and education functions) did GRS funds represent in your City's budget for:

a. Current Fiscal Year?____ ____________%

b. Fiscal Year 1977?______ ____________%

2. If your current GRS entitlement were eliminated and had to be raised from property taxes, it would raise the current rate by ________ percent.

3. Check here if your City receives no federal funds directly other than GRS funds. ___

II. Use of Funds

4. Approximately ________ percent of your City's current GRS entitlement is spent for capital outlays which include construction ($10,00 or greater per project), purchase of equipment having an expected life of five years or more, and purchase of land.

5. Approximately ________ percent of your City's current GRS entitlement is spent for operating and maintenance outlays.

NOTE: Please explain if answers to #4 and 5 above do not add to 100%:

____

GENERAL REVENUE SHARING QUESTIONNAIRE

6. Describe on separate sheets at least one example of how your City has used GRS funds to provide important community services and facilities in the past year. Use narrative descriptions being careful to include details, such as dollars spent, where appropriate.

III. Consequences of GRS Termination

7. If all GRS funds were terminated on October 1, 1983, which one statement below best describes the action your City would take?

___a. Increase property or other taxes.
___b. Increase or institute service fees and charges.
___c. Reduce or defer capital expenditures.
___d. Reduce operation and maintenance expenditures.
___e. Increase taxes and/or service fees and reduce expenditures.
___f. Use surplus or other reserve funds.
___g. Increase debt.
___h. Other (please explain) ______________________.

8. If your answer to #7 above would entail layoffs of full-time permanent personnel, estimate the number. ____________________

Compiled by _________________________ Title ___________________

Phone # _____ ____________________

Thank you for assisting in this effort to bring about renewal of this important program.

APPENDIX B

DISTRIBUTION OF CITIES BY STATE AND REGION

	Northeast		South		Midwest		West	
	CT	9	AL	19	IA	15	AK	4
	DE	2	AR	5	IL	41	AZ	8
	MA	1	DC	1	IN	9	CA	61
	MD	10	FL	40	KS	20	CO	17
	ME	2	GA	23	MI	28	ID	1
	NH	2	KY	13	MN	18	MT	2
	NJ	7	LA	21	MO	15	NM	5
	NY	10	MS	10	ND	4	NV	4
	PA	5	NC	45	NE	8	OR	13
	RI	5	OK	10	OH	33	UT	8
	VT	4	SC	10	SD	6	WA	10
			TN	16	WI	9	WY	7
			TX	33				
			VA	10				
			WV	4				
Totals		57		260		206		140

APPENDIX C

DISTRIBUTION OF RESPONDING CITIES BY SIZE AND REGION, IN NUMBER AND PERCENT

(region)

City Size	North-east	South	Mid-west	West	Total
Less than 10,000	9	73	19	15	116
10,000-49,999	30	114	128	60	332
50,000-249,999	14	54	49	55	172
250,000-499,999	2	11	5	6	24
Over 500,000	2	8	5	4	19
Total	57	260	206	140	663

(percent)

City Size	North-east	South	Mid-west	West	Total
Less than 10,000	15.8	28.1	9.2	10.7	17.4
10,000-49,999	52.6	43.8	62.1	42.9	50.0
50,000-249,999	24.6	20.8	23.8	39.3	25.9
250,000-499,999	3.5	4.2	2.4	4.3	3.6
Over 500,000	3.5	3.1	2.4	2.9	2.9

Source: National League of Cities, GRS Questionnaire, Fall, 1982

City Fiscal Conditions and Outlook for Fiscal 1985

By

Francis Viscount

WP-15

January, 1985

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PREFACE

This is the third annual fiscal conditions and outlook report published by the National League of Cities (NLC). It presents the results of a survey of city officials on current economic and fiscal conditions in their cities and their outlook for the 1985 fiscal year. The survey was conducted by the Office of Policy Analysis and Development of the National League of Cities. The development of the survey instrument, analysis of the data and preparation of this report were the responsibility of Francis Viscount, NLC's Urban Economist.

A fiscal conditions and outlook survey is conducted annually by the National League of Cities as part of its policy research program. This report is distributed to city officials across the country who are involved in the development of NLC policy positions; federal, state and other local officials involved in the development of national urban policies; the media and other interested parties. It is our hope in conducting the survey and publishing this report that this effort contributes to a better understanding of conditions in America's cities and towns, and to more informed public policymaking directed at improving those conditions.

The findings and conclusions contained in this report do not represent policy positions of the National League of Cities. They represent the views of those individual city officials who responded to our survey. Policy positions formally adopted by the membership of the National League of Cities are to be found in National Municipal Policy and Resolutions published annually by NLC.

William E. Davis, III
Director, Office of
Policy Analysis and
Development

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SUMMARY OF FINDINGS

PART I - OUTLOOK

Community Conditions

1) Local economic and fiscal conditions, particularly local unemployment, improved in most cities responding. However, high interest rates continued to be a concern. For a large number of local problems, e.g, poverty, social services, homelessness, the cost of energy, public transportation and low income housing, conditions did not improve in over 70 percent of cities responding.

2) In 1985 most respondents expect their local economy to be somewhat healthier than the national economy, however, the most frequent answer describing both the local and the national economy was "growing, but not strong."

3) The important causes of local fiscal stress for most cities were employee salary and benefit demands (95 percent), public demands for service (90 percent), and pension costs (83 percent). Other important factors were mandates (77 percent), cost and supply of energy (75 percent), reduction in federal aid (75 percent), and interest rates (74 percent).

National Priorities

4) When asked to rate various national priorities, top ranking was given to reducing the federal budget deficit (87 percent described it as "very important"). The next most important group of priorities marked "very important" were reducing interest rates, reducing unemployment and keeping inflation low. About two-thirds of respondents described these as "very important."

5) The concern about the deficit was also evident when officials were asked what would happen if nothing were done to reduce the deficit. Almost three-fourths of respondents agreed that unemployment and interest rates would rise, our trade problems would persist and private investment would remain low. Just over one-half thought we would have a recession.

Deficit Reduction

6) A number of questions were asked concerning what the federal policy should be to reduce the deficit. In general, respondents favored having most deficit reduction come from spending reductions rather than tax increases. When asked how to rearrange federal budget spending, a clear preference for reduceing Defense spending was evident. When asked what form of tax change should be made to reduce the deficit, the greatest number of respondents favored changes to the income tax which would reduce the number of deductions and credits allowed. Alternatively, three proposed tax changes were significantly

opposed: a temporary surcharge, a pure flat tax and a new tax on all forms of energy. Two other proposals, raising existing individual and business tax rates, imposing a new tax on consumption, e.g., a national sales tax, received almost equal amounts of support and opposition from the respondents.

Tax Reform

7) The final set of questions concerned fundamental tax reform. When asked what were the current problems with the federal income tax system, strong agreement was evident that the tax system was too complicated, encouraged tax avoidance, allowed the rich and businesses to avoid paying their fair share, and that the rates for middle income people were too high. There was also general agreement with the idea that too many people cheat, but little support for the criticism that the income tax system makes the poor pay too much tax.

8) Officials then were asked to indicate support for reducing the value of or protecting a series of specific tax code provisions. The responses indicate support for protecting the following deductions from reduction in value: mortgage interest payments, charitable contributions, childcare credits, property tax deductions, and general obligation bonds. On a similar number of tax provisions support for reduction in value was equally strong, with 84 percent of respondents indicating that they would support reduction in the value of oil and gas shelters. For a large number of reductions, responses divided almost evenly.

9) A set of tax code provisions of more direct interest to cities was also listed for evaluation. City officials strongly supported retaining the property tax deduction and tax exempt status of general obligation bonds. Other than for a few types of IDBs, the responses were very evenly divided between support to reduce the value of these deductions and retaining them unchanged.

10) The survey next asked if local officials believed the imposition of a national sales tax would inhibit their ability to use a local sales tax. Approximately two-thirds of those responding indicated that they believed it would.

PART II - FISCAL CONDITIONS

Generally, city fiscal conditions improved in 1984, but service demands will cause expenditures to outpace revenues in many cities in 1985. Budgets for 1984 showed more restraint than 1985 budgets do, in part, because they were adopted when the economic recovery was still young and layoffs were fresh in peoples' minds. Now after two years of recovery and low inflation, increased demands for services and for restoration of recession-forced budget cuts are apparent. Cities also are budgeting to spend uncommitted balances generated when 1984 revenues grew faster than anticipated and faster than expenditures.

11) General fund revenues in 1984 grew faster than inflation in two-thirds of cities responding. They are expected to do the same in 1985 in only 53 percent of these cities.

    General fund expenditures, on the other hand, grew faster than inflation in 59 percent of cities reporting for 1984, but are budgeted to outpace inflation in 71 percent of cities in 1985.

12) In 1985 a higher percentage of cities will have real expenditure growth than will have real revenue growth. This problem is worse for large cities than for small cities, but is true for all types of cities.

13) Just over one-half the cities responding indicated they expect property tax revenues to grow faster than inflation. A majority of midwestern cities do not expect this to happen, however.

14) Other than small cities and western cities, a majority of all other types of cities expect sales tax revenues to increase faster than inflation in 1984 and fiscal 1985. The trend, however, is for fewer cities to experience growth. In 1984, 80 percent of cities responding indicated they had expected real sales tax growth, but only 58 percent expect it during 1985.

15) Local business tax receipts showed real growth during 1984 for a majority of cities, however, only 39 percent expect real growth tax receipts in 1985.

16) Economic recovery provided more than enough tax base growth in some cities, but for quite a few it did not. Thirty percent of cities responding indicated they raised their property tax rates, while 25 percent indicated they decreased theirs. Eighteen percent of cities reporting indicated they raised sales tax rates, 24 percent raised business tax rates, and 39 percent raised user fee rates.

17) The increasing costs of the federal mandates to improve local water and sewer treatment was apparent. Forty-two percent of cities responding raised water rates and 53 percent raised sewer rates.

18) The primary functional areas of real expenditure growth will be in public safety and sanitation in 1985.

19) Employment declined in 44 percent of cities surveyed in 1984, but only 19 percent expect a drop in 1985. Seventy-one percent of cities expect to increase employment in 1985. Twenty-five percent of cities reporting had an employment freeze in 1984.

20) Total grants in aid from the states grew faster than inflation for two-thirds of the cities reporting in 1984 but only 52 percent expect it to increase in 1985. The decline is caused by drops in receipts from shared taxes and categorical grants.

21) Total federal grants in aid grew slower than inflation in 60 percent of cities responding in 1984 and 66 percent of cities responding expect the same in 1985.

22) Sixty percent of cities responding provided real increases in capital budget expenditures from current revenue in 1984 and slightly less than that number will plan on providing it during 1985. Bond-financed capital expenditures are budgeted to have increased faster than inflation in 55 percent of the cities fewer expect responding.

23) Of the cities responding, 59 percent had credit ratings of AAA or AA. Only 3 percent had their rating raised and 2 percent had their rating lowered in 1984. Fifty-six percent of cities responding plan to issue bonds in 1985. In 1984, 18 percent of cities responding cancelled a bond sale. The most common reason was high interest rates.

INTRODUCTION AND METHODOLOGY

A number of independent surveys of state and local government finances are undertaken each year, in order to supplement the larger and more complete survey conducted by the U.S. Census Bureau. The need for these surveys is two fold. First, there is a lag of 18 to 24 months before the Census Bureau survey appears. Second, many policy questions related to the fiscal condition of cities require greater disaggregation of detail than is readily available from the census survey or other government publications.

The following is a report of the results of NLCs' Fiscal Conditions and Outlook Survey. The two part survey sought information on current municipal fiscal conditions budget planning for Fiscal 1985 and the identification of major problems dominating city officials' attention. The analysis of responses, to this survey will provide useful information to national policy makers, interested in assisting local officials solve urban problems.

The survey was mailed to approximately 300 city officials active on NLC's Board of Directors, Advisory Council, Policy Steering Committees and Small Cities Advisory Council. It was also sent to a select group of cities in order to round out the responses received. Elected city officials were asked to complete Part I which sought assessments concerning local conditions, national economic policy and federal tax reform. City finance officers were asked to complete Part II which gathered fiscal data. The regional and city size distributions of responses are shown in Table 1. In the Appendix, a listing of cities which responded by state and region is included. There were 150 responses to Part I and 124 to Part II used in this analysis.

TABLE 1

DISTRIBUTION OF RESPONSES
BY CITY-SIZE* AND REGION

PART 1

OUTLOOK

	Small	Medium	Large	Total
Region:				
Northeast	8	7	2	17
Midwest	15	12	12	39
South	13	17	17	47
West	23	13	11	47
TOTAL ALL CITIES	59	49	42	150

Table 1 (con't.)

PART 2

FISCAL CONDITIONS

	Small	Medium	Large	Total
Region:				
Northeast	6	6	3	15
Midwest	12	10	9	31
South	11	18	12	41
West	16	13	8	37
TOTAL ALL CITIES	45	47	32	124

*City Size is defined as follows:
Small = under 50,000
Medium = 50,000 to 250,000
Large = 250,000 +

Survey forms were mailed during August, 1984 and collected through late October, 1984. The Fiscal 1983 data are actual, while the Fiscal 1984 data are either from actual reports or recent revisions of the city's budget. Fiscal 1985 data are from proposed or adopted budgets. Throughout the report all years mentioned refer to fiscal years unless otherwise noted.

For the purpose of this report, city size is defined as follows:

- small - current population less than 50,000;
- medium - current population between 50,000 and 250,000;
- large - current population of over 250,000.

For the purpose of this report, inflation for city governments is estimated to be 5 percent for both 1984 and 1985. All tables, unless noted, contain percentages based on the number of cities answering each particular question.

Part I: OUTLOOK

This year officials were asked questions in five areas:

- Community problems
- Local economic and fiscal conditions
- National priorities and economic conditions
- Federal expenditure changes
- Federal tax policy changes

The survey was designed to discover the extent to which cities had benefitted from the economic recovery; what city officials thought was going to happen in the economy during 1985; and what they believed would occur if the federal budget deficit were not reduced. As a follow on to the deficit question, they were asked to identify their preferences for changes in federal expenditure policy and federal tax policy.

A. Community Problems

The survey asked respondents to indicate whether each of the listed community conditions worsened, improved or did not change. For presentation purposes, the responses marked "worsened" and "no change" are grouped together in Table I-1 under the heading "Did Not Improve". Table A-1 in the Appendix includes the raw data for this question.

Responses to this question indicate that the economic recovery of the past two years has improved the economic conditions in most of the cities surveyed. However, improved economic conditions did not translate into a general improvement in other community problems. For example, while 81 percent of cities responding enjoyed better overall economic conditions and 76 percent experienced reduced unemployment, 70 percent indicated they saw no improvement in the level of poverty and 69 percent saw no improvement in homelessness conditions. Table I-1 reveals the significant number of conditions which remain unsolved by improved economic conditions alone. For example, 59 percent saw little improvement in water and sewer treatment, 71 percent saw little improvement in the adequacy of low income housing, 79 percent experienced no improvement in the cost of energy and 78 percent saw no improvement in the availability of social services.

TABLE I - 1

CHANGE IN COMMUNITY CONDITIONS DURING PAST YEAR
(percent of cities responding)

	Improved	Did Not Improve	Not Sure
Overall Economic Conditions	81%	17%	2%
Unemployment	76	23	1
City Fiscal Conditions	64	36	1
Crime	61	39	1
Streets, Roads, Sidewalks	48	51	1
Water and Sewer Treatment	41	59	1
Cost of Living	33	64	1
City Interest Rates	29	59	12
Mortgage Interest Rates	28	67	5
Adequacy of Low Income Housing	27	71	2
Supply of Energy	27	70	3
Public Transportation	24	74	2
Cost of Energy	19	79	2
Availability of Social Services	15	78	7
Poverty	12	70	18
Homelessness	10	69	20

In last year's Survey of Fiscal Conditions and Outlook conducted by NLC, the most important community problems were: interest rates, unemployment, cost of energy, inadequate local sources of revenue, attracting new jobs into their municipality, and lack of adequate housing for low and moderate income families. Of those six problems, two improved, three did not and one--inadequate local sources of revenue--was not specifically mentioned this year.

The seeming paradox of having improved economic conditions but little improvement in community conditions can be explained. For most cities, their economic base provides the means to raise revenues which then can be channeled into programs to improve conditions. In 1984, cities were uncertain whether these economic improvements were permanent rather than temporary and, therefore, were unwilling to undertake major new commitments to solve these long term problems. Should the economic recovery continue, cities would likely increase their spending to tackle these unsolved problems as well as maintain basic services.

B. Local Economic and Fiscal Conditions

In this section, the survey solicited officials' judgments about the anticipated condition of their local economy in 1985. Additionally, officials were asked to identify the most important factors which are currently creating local fiscal stress. Opinions about these two issues affect how local officials will make budget decisions concerning both revenues and expenditures.

The overall responses shown on Table I-2 indicate that city officials generally think their local economy will be growing in 1985, but they are divided about the strength of that growth. When these responses are sorted by region, southern cities show the most optimism. Two-thirds of southern officials indicated they believed their economies would be "strong and growing." In the three other regions, most of the respondents indicated they thought their economies would be "growing, but not strong". On a city size basis, large cities were the most optimistic, with 58 percent indicating their economies would be "strong and growing."

TABLE I - 2

YOUR CITY'S ECONOMIC CONDITION

	Strong and Growing	Growing but not Strong	At a Stand-still	In a Recession	Not Sure
Region:					
Northeast	29%	53%	12%	0%	6%
Midwest	35	49	10	3	3
South	67	29	2	2	0
West	37	58	5	0	0
City Size:					
Small	42	46	9	4	0
Medium	39	55	6	0	0
Large	58	33	3	0	6
TOTAL ALL CITIES	45	46	6	1	1

When asked the importance of different factors in causing local fiscal stress, this year's responses were similar to those in NLC's 1983 survey. Salary and benefit demands of public employees, public demands for service, pension costs, and federal and state mandates ranked as the most important. Over 80 percent of the cities responding indicated each of these was either important or very important. These findings are shown in Table I-3.

TABLE I - 3

FACTORS OF LOCAL FISCAL STRESS

	Very Important	Important	Not Very Important	Insignificant	Not Sure
Salary and Benefit Demands of Public Employees	67%	28%	3%	1%	0%
Pension Costs	42	43	12	3	1
Federal and State Mandates	36	43	20	1	1
Interest Rates and the Cost of Money	24	53	22	2	0
Inadequate Local Tax Base Growth	42	27	20	11	1
Public Demand for Service	36	54	9	1	0
The Cost of Energy and/or Supply of it	23	51	24	3	0
Reduction in Federal Grants in Aid	34	40	20	4	2
Reduction in State Grants	28	38	22	10	2
Political Unwillingness to Raise Taxes	28	36	26	8	3
State Controls on Revenue	35	32	26	8	1
State Controls on Expenditure	18	25	35	21	2

For most of the stress factors, when sorted by region or city size, responses showed little variation. An exception was "reduction in federal grants". Responses from both northeastern cities and from large cities indicated that the loss of federal grant-in-aid funds was a lot more important than among other cities. One hundred percent of northeastern cities and 84 percent of large cities responding indicated that reduction in federal grants was an important factor in their current fiscal condition.

TABLE I - 3-A

STRESS FACTORS: REDUCTION IN FEDERAL GRANTS

	Very Important	Important	Not very Important	Insig-nificant	Not Sure
Region:					
Northeast	50%	50%	0%	0%	0%
Midwest	36	44	21	0	20
South	28	49	17	4	2
West	34	26	28	9	4
City Size:					
Small	34	36	25	5	0
Medium	29	45	16	6	4
Large	42	42	15	0	3
TOTAL ALL CITIES	34	40	20	4	2

C. National Priorities and Economic Conditions

The federal government, like state and local governments, is constantly faced with solving many important problems. In this section, city officials were asked to evaluate a series of priorities and rank them in importance. Responses to this question clustered in two areas: reducing the federal budget deficit, and continuing to improve our economic condition. Eight-seven percent of city officials indicated reducing the federal budget was very important, and two-thirds of the responses indicated reducing unemployment, interest rates and keeping inflation low was very important. These results are displayed on Table I-4 below.

TABLE I - 4

NATIONAL PRIORITIES

	Very Important	Moder-ately Important	Not Very Important	No Problem At All	Not Sure
Reduce federal budget deficit	87%	11%	1%	1%	1%
Reduce interest rates	67	30	1	0	2
Reduce unemployment	67	28	3	1	1
Keep inflation low	64	32	3	0	1

TABLE I - 4 cont.

NATIONAL PRIORITIES

	Very Important	Moderately Important	Not Very Important	No Problem At All	Not Sure
Repair deteriorating public infrastructure	58	40	1	1	1
Reduce rising health care costs	57	38	4	1	1
Reduce crime	50	44	5	0	1
Reduce poverty in U.S.	49	40	7	1	3
Improve the competitiveness of domestic industries	49	40	7	0	4
Protect the environment	36	54	10	0	1
Rapid expansion of military strength	35	35	24	3	2
Increase rate of private savings	31	51	13	1	4
Reduce barriers to international trade	29	50	15	1	4
Reduce the cost of energy	25	56	20	3	1
Reduce illegal immigration	22	46	25	4	3
Increase supply of energy	17	59	20	3	1

A third group of priorities was judged very important by approximately half the city officials responding. These priorities were: reduce poverty in the U.S., repair deteriorating public infastructure, improve the competitiveness of domestic industries, reduce crime and reduce rising health care costs. Continued rapid expansion of military strength was judged very important by only 35 percent of city officials responding.

Seventy percent of city officials responding indicated each item was either moderately important or very important, clearly indicating that each of the items listed is a priority. However, the responses do suggest that few are of such significance and/or urgency as to have a strong consensus among city officials for immediate action to resolve them.

Although many of the responses did not show a large variation across regions and city-sizes, almost two-thirds of city officials responding from northeastern cities and large cities indicated that reducing poverty was a very important priority. These data are presented on Table I-4-A.

TABLE I - 4-A

NATIONAL PRIORITIES: REDUCE POVERTY

	Very Important	Moderately Important	Not Very Important	No Problem At All	Not Sure
Region:					
Northeast	65%	29%	6%	0%	0%
Midwest	51	35	8	0	5
South	47	49	2	0	2
West	44	40	12	2	2
City Size:					
Small	37	50	12	0	2
Medium	53	38	2	2	4
Large	65	27	5	0	3
TOTAL ALL CITIES	49	40	7	1	3

The survey questions on national economic conditions sought opinions about the state of the national economy in 1985, what would happen if the deficit were not reduced, and how urban aid should be treated in a deficit reduction program.

City officials were noticeably less optimistic about the future condition of the national economy than they were about their own local economies. The responses on Table I-5 show that half of the city officials responding indicate they expect a "growing but not strong" national economy in 1985. Only 20 percent of the responses indicated the economy would be strong and growing and, surprisingly, almost an equal number indicated they expected the economy to be at a stand still.

TABLE I - 5

National Economic Conditions - Mid-1985

	Strong and Growing	Growing but not Strong	At a stand-still	In Decline	Not Sure
Region:					
Northeast	0%	59%	29%	6%	6%
Midwest	15	44	21	8	13
South	30	49	11	9	2
West	21	55	19	0	5

TABLE I - 5 cont.

National Economic Conditions - Mid-1985

	Strong and Growing	Growing but not Strong	At a stand-still	In Decline	Not Sure
City Size:					
Small	28	47	16	3	7
Medium	21	52	21	6	0
Large	8	54	18	8	13
TOTAL ALL CITIES	20	50	18	6	6

A core concern in any debate on national priorities is whether or not the federal budget deficit represents a clear danger to the future health of the U.S. economy. The survey asked city officials to indicate agreement or disagreement with a series of statements about what would happen if the federal budget deficit were not substantially reduced. There was strong concensus that there would be problems. Ninety-six percent thought interest rates would remain high. There was also significant agreement that investment would decline, unemployment increase and trade would be hurt. Even 53 percent of city officials responding indicated they thought a recession was possible. Conversely, 73 percent of city officials responding indicated they disagreed with the statement that nothing would happen and the economy would prosper if no action were taken to reduce the deficits. These answers are found on Table I-6.

TABLE I - 6

FUTURE CONSEQUENCES OF NOT REDUCING THE FEDERAL BUDGET DEFICIT

	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
Interest rates will stay high	70%	26%	1%	0%	3%
Unemployment will rise again	35	38	17	1	9
Inflation rates will increase	33	38	15	1	13
Private investment growth will remain low	29	52	9	1	9
U.S. trade deficits will increase	34	46	10	0	11

TABLE I - 6 cont.

FUTURE CONSEQUENCES OF NOT REDUCING THE FEDERAL BUDGET DEFICIT

	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
There will be a recession	22	31	19	6	22
Nothing, the economy will prosper	0	8	35	38	19

After indicating a high degree of concern about the importance of reducing the deficit and awareness of the consequences of not reducing it, the responses to questions about how to reduce it also reveal strong convictions. When asked to choose the balance between revenue increases and expenditure cuts in a deficit reduction package, a preference for a mix which favors expenditure cuts but includes some tax increases emerged. These results are shown on Table I-7. Less than 10 percent of responses indicated a preference for more tax increases than spending cuts.

TABLE I - 7

DEFICIT REDUCTION PACKAGE

	-------------Preferred mix-----------					
Tax Increases: and Spending Cuts:	0% 100%	25% 75%	50% 50%	75% 25%	100% 0%	Not Sure
Region:						
Northeast	6%	18%	41%	6%	0%	29%
Midwest	9	31	43	3	3	11
South	17	28	32	6	4	13
West	12	56	20	2	0	10
City Size:						
Small	19	36	29	1	2	12
Medium	9	40	30	9	2	11
Large	6	29	40	3	3	20
TOTAL ALL CITIES	12	36	32	4	3	14

D. Expenditure Changes

This section and the following one report the specific expenditure and tax changes that local officials would support to reduce the federal budget deficit. To ascertain preferences on expenditure changes, the survey asked how respondents would realign federal spending priorities. On a functional basis, respondents were asked whether they would "increase, decrease or leave unchanged" the amount of funds provided in the 1984 budget. Responses to this question, displayed on Table I-8, indicated that local officials believe some areas of the federal budget are underfunded and others are overfunded.

TABLE I - 8

REALIGNING FEDERAL SPENDING PRIORITIES

Functions	Outlays in FY 1984 ($ Billion)	Increase	Decrease	No Change	Not Sure
National Defense	$237.5	5%	74%	19%	3%
International Affairs	13.5	9	46	37	8
Science, Space and Technology	8.3	34	13	49	5
Energy	3.5	25	20	51	4
Natural Resources/ Environment (S.201)	12.3	31	25	41	3
Agriculture (Rural Development)	10.7	11	35	47	7
Commerce & Housing Credit	3.8	25	21	48	6
Transportation (UMTA & Trust Funds)	26.1	23	28	47	2
Community & Regional Development (CDBG/ UDAG)	7.6	37	24	37	2
Education, Training, Employment and Social Services (JTPA)	28.7	33	28	37	2
Health	30.7	16	22	56	6
Income Security:					
Social Security & Medicare	(204.2)	11	21	62	6
Public Assistance	(68.8)	10	25	57	8
Public Retirement	(65.2)	6	32	57	6
Veterans' Benefits	25.8	10	23	63	4
Justice	6.0	15	22	58	5
General Purpose Aid(GRS)	6.7	26	18	49	7

Local officials indicated a clear preference for decreasing the level of funding of national defense with 74 percent supporting this action. The next largest response favored reduction in funding for international affairs. Following these, only between one-third and one-fifth of respondents favored decreasing any other areas in the federal budget. Unlike previous NLC surveys, around 60 percent of respondents indicated that social security, veterans benefits, public assistance, public retirement and health programs should not be cut.

City officials were also asked to indicate how important they think urban programs are when compared to balancing the budget. Although there was clear support for "fairness" in not cutting urban programs more than other programs, the most popular answer was to cut spending in the key areas of non-means tested entitlements and defense before beginning a new round of urban aid cuts. The results to this question are shown on Table I-9 below.

TABLE I - 9

URBAN PROGRAMS AND BALANCING THE BUDGET

	Percent
Balancing the budget is important enough to justify substantial cuts in federal programs my city receives	15%
Balancing the budget is important, but federal grant programs my city receives should be cut no more than other federal spending programs	32
Balancing the budget is important but the key areas of spending reduction should be military and entitlement expenditures rather than programs which have already been cut substantially (including federal grant programs my city receives)	45
Balancing the budget is important, but federal programs my city receives should not be cut anymore	6
Not Sure	2

There were significant variations among the responses when sorted by region and city-size. City officials from the northeast and midwest favored cuts in key areas before urban aid programs. Similarly, a majority of officials from medium and large cities favored key area cuts, while only a third of small city officials did. These results are displayed on Table I-9A.

TABLE I - 9-A

URBAN PROGRAMS AND BALANCING THE BUDGET

	Substantial Cuts	Proportional Cuts	Key Area Cuts First	No Cuts	Not Sure
Region:					
Northeast	0%	24%	71%	6%	0%
Midwest	16	27	51	5	0
South	21	38	31	6	4
West	14	33	44	7	2
City Size:					
Small	20	38	33	7	2
Medium	15	30	51	4	0
Large	8	24	55	8	5
TOTAL ALL CITIES	15	32	45	6	2

E. Tax Changes

The debate over reforming the federal income tax and whether or not to raise taxes to help reduce the federal deficit is of great interest to cities. The survey had four questions: one asking local officials to indicate preferred forms of tax increase, a second asking what they believed current problems were within the federal income tax system, and two questions asking what specific deductions or credits they wanted to protect, modify, and/or eliminate as part of a deficit reduction or tax reform program.

The first question asked respondents to indicate their preference for the form of tax increase to reduce the deficit. No strong concensus emerged. Fifty-six percent of respondents favored replacing the existing income tax with a modified "flat" tax having fewer deductions and lower rates and 59 percent opposed the imposition of a "flat" tax with no deductions. Sixty-five percent opposed a new tax on all forms of energy.

For most of the other possible forms, surprisingly, the responses were evenly divided between support and opposition. With regard to simply raising individual and business tax rates, 48 percent supported such a action and 46 percent opposed it. With regard to imposing a temporary surcharge 43 percent indicated support and 49 percent indicated opposition. Responses are indicated on Table I-10. The raw data for this question are found in Appendix Table A-2.

TABLE I - 10

PREFERENCES FOR TYPE OF DEFICIT REDUCTION TAX INCREASE

Possible Forms of 1985 Tax Act	Support	Oppose	Not Sure
Replace existing income tax with a modified "flat" tax with few deductions and lower rates	56%	29%	15%
Raise existing individual and business tax rates	48	46	6
Impose a new tax on a consumption (*e.g.*, a national sales tax or a value added tax)	44	43	13
Impose a temporary surcharge on individuals and businesses	43	48	8
Impose a pure "flat" tax with *no* deductions or credits and lower rates	25	59	16
Impose a new tax on all forms of energy	20	65	15

Although most of the options presented do not have specific features of direct impact on cities, it is generally accepted that imposing a new tax on consumption would hurt cities by limiting their use of sales taxes. The responses to this question, however, indicate that this conventional wisdom may need to be re-examined. Forty-four percent of respondents indicated support for the imposition of a new tax on consumption to help reduce the deficit and 43 percent opposed it.

To add perspective on what kind of tax reform local officials want, they were asked what they believed were the major current problems with the federal income tax system. Ninety-four percent of responses agreed that the tax system is too complicated, and over 70 percent agreed that there are too many loopholes which encourage tax avoidance and allow the rich and business to avoid paying their fair share.

Local officials also agreed that rates for middle income people are too high while rates for rich people are too low, and that too many people cheat. The responses to this question are found on Table I-11. The only problem listed on which less than a majority agreed with was that the poor paid too much tax.

TABLE I - 11

CURRENT PROBLEMS WITH TAX SYSTEM

	Agree	Disagree	Not Sure
It is too complicated	94%	6%	1%
Most deductions are loopholes and encourage tax avoidance	75	20	5
The rich use deductions to avoid paying their fair share	75	18	7
Businesses use deductions to avoid paying their fair share	70	26	4
The poor pay too much tax	36	50	14
The rates are too high for middle income people	67	24	9
Tax rates are too low for rich people	58	32	10
Too many people cheat	61	25	15

When responses are sorted on a regional basis, little variation is found except for the question of whether too many people cheat. On that question 73 percent of responses from cities in the south agreed, but only 44 percent of city officials in the northeast agreed. There was remarkably uniformity among small, medium and large city officials responding. The results of this analysis is found on Table I-11-A.

TABLE I - 11-A

CURRENT PROBLEMS: TOO MANY PEOPLE CHEAT

	Agree	Disagree	Not Sure
Region:			
Northeast	44%	31%	25%
Midwest	65	24	13
South	73	15	13
West	51	32	16

TABLE I - 11-A cont.

CURRENT PROBLEMS: TOO MANY PEOPLE CHEAT

	Agree	Disagree	Not Sure
City Size:			
Small	62	23	15
Medium	58	31	11
Large	61	18	21
TOTAL ALL CITIES	61	25	15

In order to fully examine the willingness of local officials to support tax reform, they were asked to indicate their support for reductions in value of a list of specific tax code provisions which are among the most costly in terms of tax revenue lost by the U.S. Treasury. They were also asked a similar question with regard to an additional set of tax code provisions that are of direct benefit for cities.

The questionnaire asked whether the official would support "elimination", "reduction but not elimination", or "no change" in each provision. For the purposes of presentation here, responses supporting "elimination" or "reduction in value" were grouped together and set opposite "no change."

The answers are displayed on Table I-12 for general tax code provisions. It shows the lack of concensus on how to change the tax code with one exception. The one very strong preference indicated is for a reduction in the value of oil and gas shelters. The raw data is found in the Appendix.

TABLE I - 12

GENERAL TAX CODE PROVISIONS

	Tax Revenue Losses FY '84* ($ Billion)	-----Would support----- Reduction of value	No Change	Not Sure
Oil and Gas Shelters	$ 2.1	84%	11%	6%
Military Benefits Exclusion	2.3	66	26	9
Insurance Earnings Exclusion	2.4	63	18	19

TABLE I - 12 cont.

GENERAL TAX CODE PROVISIONS

	Tax Revenue Losses FY '84* ($ Billion)	-----Would support------ Reduction of value	No Change	Not Sure
Private Pension Interest and Dividend Earnings Exclusion	56.6	60	34	7
Non-Mortgage Interest Payments	8.2	60	33	7
Accelerated Business Investment Cost Recovery (ACRS)	15.9	59	32	9
Lower Tax Rates on Capital Gains	16.4	58	34	8
Interest and Dividend Exclusion (up to $400)	6.0	48	49	3
Exclusion of all Social Security Payments from Tax	20.5	42	51	7
Employer-paid medical Fringe Benefits	21.3	41	52	7
Business Research and Development Incentives	3.1	38	53	9
Mortgage Interest Payments	28.0	34	63	4
Childcare Credits	1.8	33	62	5
Charitable Contributions	8.0	29	69	2

*Source: OMB, Special Analysis, President's Fiscal 1985 Budget

Six additional tax code provisions are singled out for reduction of value by about 60 percent of respondents. These six provisions concern deferring taxation of different kinds of earnings and with the capital gains and depreciation provisions established in the 1981 tax act.

Over 60 percent of respondents support no change in only 3 items: mortgage interest payments, charitable contributions and child care credits. Just over 50 percent of respondents support no change in medical fringe benefits, keeping social security from being taxed and retaining business research and development incentives.

These finding are significant. The total federal tax revenue foregone for items for which there is support for "reduction in value" is over $100 billion in 1984. The tax loss by items for which support for "no change" exceeds 60 percent was $41 billion in 1984.

The second set of tax code provisions presented to respondents concern items which have a clear relationship to programs or activities supported by cities. These tax code provisions encourage capital investment, renovation, new housing, multi-family housing and employment, as well as providing basic services. Perhaps the result most worthy of note from this question is the fact that a majority of city officials would support some reduction in value for many of these items despite the general fiscal stress which they are experiencing and the continuing reduction of federal spending in many of these areas. In the same way that the previous question was handled, responses supporting elimination, or reduction but no elimination, have been grouped together under the title "Reduction of Value." The responses can be found on Table I-13.

TABLE I - 13

CITY TAX CODE PROVISIONS

	Tax Revenue Loses FY '84* ($ Billions)	----Would support----		
		No Change	Reduction of Value	Not Sure
General Obligation Bonds	$11,720	76%	19%	5%
Property Tax Deduction	9,535	64	30	6
Mass Transit Bonds	90	53	34	13
Non-profit Hospital Bonds	1,430	51	36	13
Student Loan Bonds	310	49	42	9
IDB: Pollution Control	1,335	46	48	6

TABLE I - 13 cont.

CITY TAX CODE PROVISIONS

	Tax Revenue Loses FY '84* ($ Billions)	-----Would support---- No Change	Reduction of Value	Not Sure
IDB: Rental Housing	900	43	50	7
IDB: Small Issue	1,985	42	50	8
Rehabilitation Tax Credit	365	42	47	11
Non-business State/Local Tax Deductions	21,770	41	48	11
Depreciation: Rental Housing	820	41	40	10
Non-profit Education Bonds	140	41	49	19
Veterans' Housing Bonds	230	40	47	14
Targeted Jobs Credit	695	39	51	10
5 yr. Depreciation-Rehabilitation	60	38	46	15
IDB: Energy Production	30	37	51	11
Mass Transit Leasing	--	31	45	24

*OMB, Special Analysis, President's Fiscal 1985 Budget

The strongest consensus emerged in support for "no change" in allowing deductions for property taxes and the tax treatment of general obligation bonds. Seventy-six percent of city officials responding indicated support for no change in the tax treatment of general obligation bonds and 64 percent indicated support for no change in the property tax deduction. Throughout the remainder of the list strong preferences for "reduction in value" or for "no change" are notably absent and most of the responses divide surprisingly evenly. A slight preference for "no change" in the tax treatment of mass transit bonds, non-profit hospital bonds, mortgage revenue bonds and student loan bonds can be seen. On the other hand slight preferences for the "reduction in value" of many forms of IDBs', including small issue and rental housing of IDBs', and the targeted tax credit. Support for "reduction in value" in deductions for state and local non-business taxes should not be interpreted as support for eliminating these tax deductions.

The regional and city size breakdown for a number of these responses revealed a significant diversity of opinion among city officials. In Table 13-A the regional and city size breakdown on small issue IDBs is shown. Strong support for no change is evident by city officials in the northeast and midwest, areas which use small issue IDBs extensively, while support for reduction in value is strongest by southern and western city officials. Responses by city size are more uniform.

TABLE I - 13-A

CITY TAX CODE PROVISIONS: IDB: SMALL ISSUE

	-----Would Support-----		
	Reduction of Value	No Change	Not Sure
Region:			
Northeast	37%	56%	6%
Midwest	35	59	6
South	53	31	6
West	51	37	12
City Size:			
Small	47	47	5
Medium	56	38	7
Large	46	41	14
TOTAL ALL CITIES	50	42	8

With regard to the property tax deduction, the regional breakdown of responses also points to an unusual distribution. Eighty-eight percent of city officials from the northeast supported no change in the property tax deduction, almost 25 percentage points more than any other region. Once again, the distribution among city size is much more uniform. Table I-13B displays these figures.

TABLE I - 13-B

CITY TAX CODE PROVISIONS: PROPERTY TAX DEDUCTION

	------Would Support--------		
	Reduction of Value	No Change	Not Sure
Region:			
Northeast	6%	88%	6%
Midwest	32	62	6
South	34	64	2
West	33	57	10
City Size:			
Small	34	60	5
Medium	27	69	4
Large	28	64	8
TOTAL ALL CITIES	30	64	6

Responses on IDBs used for rental housing reveal both a regional and a city size variation. Northeastern city officials supported no change significantly more than officials from other regions, and a majority medium and large city officials also supported no change. On the other hand, almost three-fourths of small city officials supported reduction of value for these types of IDBs. Here again the pattern of responses resembles the degree to which they are used. These figures are displayed on Table I-13C.

TABLE I - 13-C

CITY TAX CODE PROVISIONS: IDB: RENTAL HOUSING

	------Would Support-------		
	Reduction of Value	No Change	Not Sure
Region:			
Northeast	31%	56%	13%
Midwest	50	44	6
South	60	40	0
West	45	41	14
City Size:			
Small	71	22	7
Medium	33	62	4
Large	36	53	11
TOTAL ALL CITIES	50	43	7

This pattern of greater support for "no change" in northeastern and medium and large cities continues for other tax code provisions which encourage the development of rental housing. Tables 13-D, E, and F all present a similar pattern.

TABLE I - 13-D

CITY TAX CODE PROVISIONS: DEPRECIATION: RENTAL HOUSING

	Would Support		
	Reduction of Value	No Change	Not Sure
Region:			
Northeast	31%	56%	13%
Midwest	56	35	9
South	53	40	6
West	44	42	14
City Size:			
Small	63	31	7
Medium	41	57	2
Large	35	41	24
TOTAL ALL CITIES	48	41	10

TABLE I - 13-E

CITY TAX CODE PROVISIONS: 5-YEAR DEPRECIATION-REHABILITATION

	Would Support		
	Reduction of Value	No Change	Not Sure
Region:			
Northeast	38%	44%	19%
Midwest	49	36	15
South	57	30	13
West	37	47	16
City Size:			
Small	60	22	17
Medium	36	57	7
Large	36	42	22
TOTAL ALL CITIES	46	38	15

TABLE I - 13-F

CITY TAX CODE PROVISIONS: REHABILITATION TAX CREDIT

	Would Support		
	Reduction of Value	No Change	Not Sure
Region:			
Northeast	37%	56%	6%
Midwest	49	49	12
South	57	34	9
West	47	40	14
City Size:			
Small	62	28	10
Medium	38	56	7
Large	36	47	17
TOTAL ALL CITIES	47	42	11

Support for reduction in value of non-business state and local tax deductions was supported most strongly in the south and the west and least in the northeast and midwest. By almost equal percentages, northeast and midwest city officials favored "no change," while south and western city officials indicated support for some "reduction in value". On a city size basis, small city officials were the strongest supporters for "reduction in value" while medium and large size city officials were more evenly split. These data are shown on Table I-13G.

TABLE I - 13-G

CITY TAX CODE PROVISIONS: NON-BUSINESS STATE AND LOCAL TAX DEDUCTIONS

	Would Support		
	Reduction of Value	No Change	Not Sure
Region:			
Northeast	44%	50%	6%
Midwest	38	53	9
South	52	39	9
West	54	30	16
City Size:			
Small	54	36	9
Medium	43	48	9
Large	43	41	16
TOTAL ALL CITIES	48	41	11

The final question asked in this section concerned whether a national sales tax would limit the ability to use local sales taxes. City officials were asked to answer "yes" or "no" to this question. Overall 63 percent of city officials responded, yes, they thought it would limit their ability, while 37 percent indicated they did not think it would. Although cities in the midwest indicated the strongest sense that they would be hurt by a national sales, the responses were quite uniform across regions. On the city size basis, however, officials from large cities overwhelmingly indicated that they would be hurt by a national sales tax, while just over a majority of officials from small cities thought they would be affected negatively. The responses to this question are found on Table I-14.

TABLE I - 14

WOULD A NATIONAL SALES TAX LIMIT YOUR ABILITY TO USE A LOCAL SALES TAX?

	Yes	No
Region:		
Northeast	57%	43%
Midwest	68	32
South	59	41
West	65	35
City Size:		
Small	53	47
Medium	63	37
Large	77	23
TOTAL ALL CITIES	63	37

Part II - FISCAL CONDITIONS

A. Overall Trends in General Fund Revenues and Expenditures

City fiscal conditions have continued to improve during 1984. In large measure the general improvement of the national economy helped most cities; revenues grew faster than expenditures. In 1985, however, many municipal officials expect this to reverse. Municipal budgets for 1985 reveal that for many cities expenditures will grow faster than revenues, postponing the restoration of the deep service cut backs which occurred in 1982 and 1983.

To analyse the general trends in revenue and expenditure growth, the budgets of the 124 cities responding to Part II of the survey were compared to the inflation rate. The rate of inflation used for both years was 5 percent since the cost of government services is rising slightly faster than the general price level in the economy.

By comparing the rate of change in revenues and expenditures to the inflation rate two types of conclusions can be drawn. The primary one is an assessment of the ability of a city to maintain existing levels of services. The second concerns the relationship of city revenues and expenditure growth to general economic conditions.

Throughout the following analysis, trends will be examined in the aggregate and also on a regional basis and a city population basis. In this survey, there are more significant variations when responses are sorted on a regional basis than has been the case in our past two annual surveys. Previously the variations were more significant on a city size basis.

In 1984 just under two-thirds of cities responding experienced general fund revenue growth faster than inflation. While responses were remarkably uniform across city sizes, there was some variation among cities from different regions. Seventy percent of cities in the south and 68 percent of cities in the midwest reported real general fund revenue growth in 1984, while only 53 percent of cities in the northeast did. These figures are found in Table II-1.

TABLE II - 1

REVENUE VS. INFLATION* GENERAL FUND

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	47%	56%	53%	44%
Midwest	32	65	68	35
South	30	38	70	62
West	38	39	62	61
City Size:				
Small	34	52	66	48
Medium	36	42	64	58
Large	34	45	66	55
TOTAL ALL CITIES:	35	47	65	53

*Assumed Inflation = 5%.

In 1985, however, only 53 percent of all cities expect real revenue growth and the disparity among regions will become more pronounced. For example, 62 percent of cities in the south anticipate real revenue growth in 1985, while only 35 percent of cities in the midwest do. Once again, the responses across city size are much more uniform.

On the opposite side of the budget, 59 percent of cities responding experienced real general fund expenditure growth in 1984, however, 72 percent budgeted for real general fund expenditure growth in 1985. As with revenues, responses across city size differ less than those across regions. In 1984, the dispersion across regions was wide, with 71 percent of midwestern cities reporting real expenditure growth in general fund programs versus 40 percent of northeastern cities. The other regions were spread between these extremes. In 1985 these trends merge substantially with three-fourth of cities in three regions budgeting real expenditure growth but only 59 percent of midwestern cities budgeting the same. These results are found on Table II-2.

TABLE - II - 2

EXPENDITURES VS. INFLATION - GENERAL FUND

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	60%	22%	40%	78%
Midwest	29	41	71	59
South	45	22	55	78
West	40	26	60	74
City Size:				
Small	45	36	55	64
Medium	38	23	62	77
Large	41	26	59	74
TOTAL ALL CITIES:	41	28	59	72

By comparing cities budgeting real revenue increases to cities budgeting real expenditure increases, a general sense of the fiscal well being of cities is gained. In 1984 the percent of cities experiencing real growth in general fund revenues was higher than the percent of cities incurring real increases in general fund expenditures. In 1985 the opposite is the case. For cities of all sizes and in all regions, the percent of cities expecting real expenditure growth exceeds, by a significant margin, the percent of cities surveyed that indicated they budgeted real expenditure increases. Only 53 percent expect real increases in revenue, while 72 percent expect real expenditure growth. The anticipated slow down in the growth of revenues is related to an expectation that their local economy will be growing more slowly in 1985 than during 1984. These figures are shown on Table II-3.

TABLE II - 3

General Fund Revenues vs. Expenditures

	Faster Than Inflation FY 84-85	
	Revenue	Expenditures
Region:		
Northeast	44%	78%
Midwest	35	59
South	62	78
West	61	74

TABLE II - 3 cont.

General Fund Revenues vs. Expenditures

	Faster Than Inflation FY 84-85	
	Revenue	Expenditures
City Size:		
Small	48	64
Medium	58	77
Large	55	74
TOTAL ALL CITIES	53	72

On a regional basis, the northeastern and midwestern cities responding appear headed for a more difficult time in 1985 than southern or western cities. These differences between cities budgeting real revenue increases and real expenditure increases is 34 percent in the northeast and 24 percent in the midwest. It is only 13 percent in the west and 16 percent in the south.

When total city revenue is considered the picture is similar. In 1984, 63 percent of cities reporting indicated they experienced real revenue increases and 59 percent have budgeted real increases in 1985. However, on the expenditure side, 64 percent of cities responding indicated they had real growth in 1984, while 70 percent have budgeted for real growth in 1985. These figures are displayed on Tables II-4 and II-5.

TABLE II - 4

TOTAL CITY REVENUE

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	60%	50%	40%	50%
Midwest	40	47	60	53
South	30	38	70	62
West	30	29	70	71
City Size:				
Small	42	45	58	55
Medium	38	40	62	60
Large	28	37	72	63
TOTAL ALL CITIES:	37	41	63	59

TABLE - II - 5

TOTAL CITY EXPENDITURES

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	67%	12%	33%	88%
Midwest	28	56	72	44
South	31	22	69	78
West	34	21	66	79
City Size:				
Small	44	25	56	75
Medium	33	42	67	58
Large	29	21	71	79
TOTAL ALL CITIES:	36	28	64	70

As was the case for general fund budgets, the regional variations of total city budgets are more pronounced than the variations among different size cities. On Table II-4, the percent of cities with real revenue growth in 1985 varies in different regions by 21 percentage points, but by only 8 points when city size is considered. For expenditure growth, Table II-5 shows the variation is even more dramatic. On a regional basis, there is a 44 percentage point difference between the percent of cities budgeting real expenditure growth in the northeast and the midwest. On a city size basis there is more variation than in 1984, 21 percentage points, but that is only half of the regional variation.

Survey data was analyzed to determine the overall average percentage growth in general fund revenues and expenditures. Responses were also examined to find out if there are a large number of cities experiencing a consistent trend of growth or decline during both 1984 and 1985.

The trends of improvement in 1984 but tightening in 1985 were confirmed by the overall average changes in revenues and expenditures. In 1984 average revenue growth for the 124 cities responding was 8.4 percent. Average expenditure growth was 7.1 percent, and thus, on average, in 1984 cities were able to begin to restore a small amount of the program cuts they instituted in 1981-1983. However, the average budgeted general fund revenue increase is 5.2 percent in 1985, while the average increase in expenditures is 8.9 percent. This difference is in part explained by some of the expenditures associated with restoring services, but it also indicates that most cities will have to stop restoring the service cuts made during 1980-1983.

The question concerning whether the same cities are experiencing the same things in both 1984 and 1985 must be answered "no". Less than one-quarter of the cities in the survey had real growth in revenues and expenditures in both 1984 and 1985. Alternatively, although 49 cities had expenditure growth exceed revenue growth in 1984 and 66 cities expect this in 1985, only 23 cities expect it in both years. Therefore it is reasonable to conclude that financial conditions continue to be volatile on a year to year basis in most cities and the time of long term fiscal stability and growth has not yet arrived.

B. Selected Revenue Trends

Beginning with the revenue side of the budget, different aspects of the fiscal condition of cities survey were examined. The main trend examined is whether the rate of change between fiscal years was slower or faster than inflation. Four major revenue sources were analysed: property, sales and business taxes and user fees.

In 1984, three of these four revenue sources grew faster than inflation, for a majority of cities. Only business taxes grew more slowly than inflation in a majority of cities. However, in 1985, the situation is reversed. A majority of cities have budgeted increases less than inflation for three revenue sources - property taxes, business taxes and fees and user charges. Only sales tax revenues have been budgeted to increase faster than inflation by a majority of cities responding. These trends are shown on Table II-6.

TABLE II - 6

SELECTED REVENUES VS. INFLATION

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Revenue Source:				
Property Tax	47	51	53	49
Sales Tax	21	43	79	57
Business Tax	51	61	49	39
Fees and User Charges	47	54	53	46

On Table II-7 a regional and city size distribution of property tax revenue growth is provided. There are significant features in both the regional and city size figures. In both years, about two-thirds of midwestern cities expect property tax revenues to not keep pace with inflation. In fact, the midwest is the only region where less than a majority of cities are having real increases in property tax revenue.

TABLE II - 7

REVENUE GROWTH: PROPERTY TAX

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	47%	33%	53%	67%
Midwest	67	71	33	29
South	37	47	63	53
West	43	44	57	56
City Size:				
Small	56	54	44	46
Medium	51	52	49	48
Large	31	47	69	53
TOTAL ALL CITIES:	47	51	53	49

On a population basis, a majority of large cities reported real property tax increases, while a majority of medium and small cities did not. However, in 1985 the large discrepancy between the percent of large cities experiencing real property tax revenue growth disappeared and although a slight majority (53 percent) of large cities do expect real growth, very close to a majority of small (46 percent) and medium (48 percent) do so as well.

The picture for sales taxes is different than for property taxes. Although there was a very high percent of cities in all regions and of all sizes with real growth in 1984, there was still some variation on a regional basis. Eighty-six percent of western cities had real growth, nineteen percentage points more than for northeastern cities (67%). Table II-8 provides these figures.

TABLE II - 8

REVENUE GROWTH: SALES TAX

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	33%	0%	67%	100%
Midwest	27	50	73	50
South	23	35	77	65
West	14	50	86	50

TABLE II - 8

REVENUE GROWTH: SALES TAX

	Slower than Inflation FY83-84	Slower than Inflation FY84-85	Faster than Inflation FY83-84	Faster than Inflation FY84-85
City Size:				
Small	21	56	79	44
Medium	19	43	81	57
Large	23	27	77	73
TOTAL ALL CITIES:	21	43	79	57

In 1985 the expectations of cities in different regions and of different sizes diverge substantially. On a regional basis, a majority of cities in all regions expect real sales tax growth. However, this ranges from 100 percent of northeastern cities to exactly 50 percent of midwestern and western cities.

On a city size basis the size of the diveragence is less than found on a regional basis, but not all size groups have a majority of cities expecting real increase. Only 44 percent of small cities expect real sale tax increases, about half as many as 1984. Only 57 percent of medium sized cities expect real sales tax increases, a drop of twenty five percentage points from 1984. However, the percent of large cities budgeting real increases is almost the same as 1984.

Like property and sales taxes, business tax revenue is budgeted to grow more slowly in 1985 than in 1984. However, unlike property and sales taxes, business tax revenue will grow more slowly than inflation in a majority of cities in 1984 (51%) or 1985 (61%). On a regional basis, only a majority of cities in the south will have real growth both years. A majority of western cities did in 1984, but not in 1985. The very low percent of midwestern (21%) and northeastern (22%) cities budgeting real increases in business tax revenues in 1985 is worth noting. Table II-9 displays these figures.

TABLE II - 9

REVENUE GROWTH: BUSINESS TAXES

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	79%	78%	21%	22%
Midwest	53	79	48	21
South	43	46	58	56
West	49	61	51	41
City Size:				
Small	65	68	35	32
Medium	50	67	51	33
Large	35	43	65	57
TOTAL ALL CITIES:	51	61	49	39

When cities are distributed by population, the percent of large cities (65%) showing real business tax growth is nearly twice that of small cities (35%) in 1984. In 1985, 57 percent of large cities budgeted real increases, however, only about one-third of small and medium cities reported similar expectations. Curiously, the percent of medium-sized cities experiencing real business revenue growth is expected to decline from 51 percent in 1984 to 33 percent in 1985.

For the past few years service charges and fees have been one of the fastest growing items in the city revenue spectrum. However, for the cities surveyed, 1984 was a year of slowing growth and in 1985, a majority of cities responding expect growth less than the rate of inflation. These figures are on Table II-10.

TABLE II - 10

REVENUE GROWTH: SERVICE CHARGES AND FEES

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	67%	44%	33%	56%
Midwest	57	58	43	42
South	39	54	61	46
West	39	53	61	47

TABLE II - 10 cont.

REVENUE GROWTH: SERVICE CHARGES AND FEES

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
City Size:				
Small	46	53	54	47
Medium	51	45	49	55
Large	42	67	58	33
TOTAL ALL CITIES:	47	54	53	46

The trends in these data are complex. Three regions and two city-size groups report declines in the percent of cities having real revenue growth between 1984 and 1985. However, northeastern cities and medium sized cities report the opposite trend.

There are also significant variations between regions in 1984 and between different sized cities in 1985. Only 33 percent of northeastern cities had real growth in 1984, while 61 percent of southern and western cities did, a difference of 28 percent. In 1985, the variation among regions will decline by a half to 14 percentage points. On a city-size basis, only 9 percentage points separate the three groups in 1984, but it will increase to 22 percentage points in 1985.

C. Selected Expenditure Trends

Moving to the expenditure side of the budget, in 1985 almost three-fourths of the cities responding to the survey anticipate real increases in expenditures. (See Table II-2) Only small cities and midwestern cities are significantly below this level. In this section, selected city expenditure categories will be examined in the aggregate as well as by region and population.

As with revenues, the regional variations among cities tended to be more noticeable than those among different sized cities. The midwestern region showed the most variation from the average for all cities. This variation reflects the greater fiscal stress these cities are facing due to the transformation occurring in their local economies.

Public safety, a large part of all local budgets, grew faster than inflation in two-thirds of cities responding in 1984 and is expected to grow in just under that percent of cities again in 1985. For northeastern cities responding to the survey the pattern is different. Sixty percent anticipated real public safety expenditure growth in 1984, however, 56 percent of cities indicated they are now budgeting for a real decrease in 1985. These figures are on Table II-11. In the midwest, while the change from 1984 to 1985 in less extreme, the percent of cities budgeting real increase in public safety expenditures will drop from 67 percent to 55 percent in 1985. Almost two-thirds of the cities in each population group budgeted a real increase in 1985.

TABLE II - 11

EXPENDITURES: PUBLIC SAFETY

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	40%	56%	60%	44%
Midwest	33	45	67	55
South	30	31	70	69
West	36	31	64	69
City Size:				
Small	32	35	68	65
Medium	33	33	67	67
Large	39	42	51	58
TOTAL ALL CITIES:	34	36	66	64

Sanitation expenditures, another large category for most local governments, shows an increasing proportion of cities budgeting real increases in expenditures in 1985 than experienced them in 1984. Overall, less than half the cities reported real growth in expenditures in sanitation in 1984, however, 61 percent expect real growth in expenditures for sanitation in 1985. Table II-12 shows these figures. Wide variations between years were limited to two regions. While one-third of northeastern cities indicated real expenditure increases in sanitation in 1984, two-thirds have reported they are budgeting real increases in 1985. Similarly, the percent of cities in the west budgeting real increases will grow from 50 percent to 70 percent in 1985.

TABLE II - 12

EXPENDITURES: SANITATION

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	64%	34%	36%	67%
Midwest	50	48	50	52
South	50	42	50	58
West	50	30	50	70
City Size:				
Small	51	32	49	68
Medium	59	42	41	58
Large	43	43	57	57
TOTAL ALL CITIES:	52	39	48	61

The variations between years was also pronounced on a city-size basis for small and medium sized cities. The percent of small cities budgeting real spending increases for sanitation grew from 49 percent to 68 percent in 1985. For medium sized cities the respective percents are 41 percent and 58 percent. The percent of large cities responding which budgeted real spending increases was the same each year.

Transit is an area where a growing majority of cities indicate real growth in expenditures in 1985. Fifty-four percent reported real growth in 1984 and almost two-thirds budgeted for it in 1985. Table II-13 displays these results. However,the regional and city size experience is highly varied. In 1984 less than half the cities in the south and less than half of the small and medium sized cities responding indicated real transit expenditure growth. In 1985 only cities in the midwest indicated less than a majority (40%) were budgeting real increases. The range of responses is also wide in 1985, from a low of 40 percent for midwestern cities to the high of 100 percent of northeastern cities, followed by 90 percent of western cities and 86 percent of small cities. The low percent in the midwest is easier to explain than the high percentages in other categories. On a city size basis, the doubling of the percent of small cities having real growth - from 43 percent to 86 percent - is also noteworthy.

TABLE II - 13

EXPENDITURES: TRANSIT

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	50%	0%	50%	100%
Midwest	50	60	50	40
South	52	41	48	59
West	30	10	70	90
City Size:				
Small	57	14	43	86
Medium	52	42	48	59
Large	32	33	68	67
TOTAL ALL CITIES:	46	34	54	66

Overall, expenditures for transportation related serices, e.g. traffic control, signalization, maintenance and repair, grew in real terms in 55 percent of the cities responding in 1984 and is expected to grow in real terms in 58 percent cities in 1985. These figures are on Table II-14. But the total masks many variations. Only 38 percent of midwestern cities experienced real transportation expenditure growth in 1984 and 40 percent are budgeting it in 1985. This is significantly lower than in the other regions. On a city size basis, 38 percent of small cities experienced real transportation expenditure growth in 1984, however, 72 percent have budgeted real increases in 1985, an extraordinary growth rate compared to other sized cities. About the same percentage of medium and large sized cities experienced real transportation expenditure growth in 1984 and are budgeting it in 1985.

TABLE II - 14

EXPENDITURES: TRANSPORTATION
(other than transit)

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	30%	43%	70%	57%
Midwest	62	60	38	40
South	50	38	50	62
West	32	32	68	68

TABLE II - 14 cont.

EXPENDITURES: TRANSPORTATION
(other than transit)

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
City Size:				
Small	62	28	38	72
Medium	39	43	61	57
Large	40	50	60	50
TOTAL ALL CITIES:	45	42	55	58

D. Capital Expenditures

Pressure to expand capital spending financed with current revenues and with bond funds continued for most cities responding to the survey. Overall 59 percent of cities had real increases in current revenue capital spending in 1984 and 57 percent have budgeted real increases in 1985. These figures are on Table II-14. While there was a lot of variation across regions and different sized cities in 1984, the percent of cities budgeting real increases was remarkably uniform in 1985. The major changes from 1984 to 1985 were limited to two regions, the northeast and the south. The percent of cities budgeting real increases grew from 39 percent to 57 percent in the northeast in 1985. In the south, the opposite was the case, with the percent of cities reporting real increases declining from 70 percent to 58 percent in 1985.

TABLE II - 15

CAPITAL BUDGETS: CURRENT REVENUE

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	61%	43%	39%	57%
Midwest	48	48	52	52
South	30	42	70	58
West	41	41	59	59

TABLE II - 15 cont.

CAPITAL BUDGETS: CURRENT REVENUE

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
City Size:				
Small	36	36	64	64
Medium	38	47	62	53
Large	52	48	48	52
TOTAL ALL CITIES:	41	43	59	57

The complement to current revenue capital budgets are bond financed capital expenditures. Just over half of all cities (55%) indicated they had real capital spending increases, in 1984 and a similar percent (53%) plan them in 1985. These numbers are on Table II-16.

However, the aggregate numbers hide many variations. On a year to year basis, midwest cities and large cities showed the most variation. The percent of midwest cities having real increases in bond financed capital budgets will decline from 63 percent to 42 percent. For large cities the decline is from 48 percent to 36 percent.

TABLE II - 16

CAPITAL BUDGETS: BOND FUNDING

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	58%	57%	42%	43%
Midwest	37	58	63	42
South	50	46	50	54
West	33	40	67	60
City Size:				
Small	48	40	52	60
Medium	38	38	62	62
Large	52	64	48	36
TOTAL ALL CITIES:	45	47	55	53

A second comparison, on a regional basis, reveals a large variation in 1984 between the west, with 67 percent of cities reporting real capital spending increases, and the northeast, where only 42 percent of cities real increases. In fact, the northeast cities responding show a majority experiencing real decreases in bond financed capital spending for both 1984 and 1985. In 1985, both the northeast and midwest report a majority of cities are budgeting real decreases.

On a city size basis, the trend is toward diversity rather than uniformity. In 1984, the variation among different sized cities having real bond financed capital spending growth was 12 percentage points. In 1985, it was 26 percentage points.

E. Intergovernmental Aid

The flows of funds from states to cities and the federal government to cities are significant. However, in recent years state aid has stopped growing as rapidly as it did during the 1970's and federal aid had begun to decline in absolute terms. In this section state and federal aid flows are analyzed.

Total state aid increased in real terms in 66 percent of the cities responding to the survey in 1984. For 1985, the percent of cities budgeting real increases in state aid dropped to 51 percent. This is shown on Table II-17. For 1984 the regional and city size breakdowns are similar except for cities in the midwest. Only 52 percent of cities in the midwest experienced real growth in state aid compared with 66 percent overall and over 70 percent in large cities and those in the south and west regions. In 1985, the midwestern cities anticipating real increases in state aid dropped precipitously compared to 27%--to 55 percent in southern cities and 66 percent of western cities.

TABLE II - 17

STATE AID: TOTAL

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	33%	57%	67%	43%
Midwest	48	73	52	27
South	29	45	71	55
West	28	34	72	66
City Size:				
Small	32	52	68	48
Medium	37	48	63	52
Large	30	48	70	52
TOTAL ALL CITIES:	34	49	66	51

Total aid to cities is comprised of three elements; general assistance, shared taxes and categorical grants. General assistance is used for fiscal equalization and stabilization purposes and comes with few strings. Shared taxes are most often in the form of a local add-on to a state levied tax, e.g. a local-option sales tax. Categorical grants are funds provided for a special purpose and on a non-recurring basis.

General aid responses are shown on Table II-18. Overall, the percent of cities expecting real increases grow from 44 to 56 in 1985. The percent of cities receiving increases grow in every region, except the northeast. In the northeast the percent of cities budgeting real increases in general aid declines from 67 percent in 1984 to 40 percent in 1985.

TABLE II - 18

STATE AID: GENERAL AID

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	33%	60%	67%	40%
Midwest	50	38	50	62
South	62	43	38	57
West	67	44	33	56
City Size:				
Small	43	43	57	57
Medium	75	69	25	31
Large	45	22	55	78
TOTAL ALL CITIES:	56	44	44	56

The amount of growth between years varies significantly among regions and different sized cities. The percent of cities having real increases in general state aid grows 23 percentage points in the west and among large cities. It grows by 19 percentage points in the south. However, it only grows by 12 percentage points in the midwest, by 6 percetage points in medium cities and not at all in small cities.

In contrast to these trends, it is important to note that for cities in the northeast and of medium size, a large majority have budgeted real declines in 1985. For many medium sized cities, 1985 will be the second year in a row.

State aid in the form of shared taxes grew in real terms in 60 percent of cities responding to the survey in 1984, but only 45 percent expect it to do so in 1985. This experience varied significantly depending on the region where each city is located. For example, 80 percent of cities in the northeast experienced real growth in shared taxes in 1984 but none budgeted real increases in 1985. Alternatively, 42 percent of midwestern cities experienced real growth in shared taxes in 1984, but less than one-fourth have budgeted real increases in 1985. On the basis of population, 58 percent of small cities had real increases in 1984, but only 37 percent expect to in 1985.

TABLE II - 19

STATE AID: SHARED TAXES

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	20%	100%	80%	0%
Midwest	58	76	42	24
South	37	46	63	54
West	35	35	65	65
City Size:				
Small	42	63	58	37
Medium	42	54	58	46
Large	35	45	65	55
TOTAL ALL CITIES:	40	55	60	45

States, like the federal government, offer a variety of categorical grants to cities. Trends for them are less predictable because many are for one time rather than being on-going commitments. About half the cities responding experienced real increases in these types of grants in 1984 (52%) and have budgeted increases in 1985 (47%). However,the experiences of individual cities is highly variable. For example, 78 percent of the cities responding from the west experienced real increases in 1984 while only 38 percent of cities in the south did. In 1985, 57 percent of northeastern cities budgeted real increases, while only 41 percent of midwestern and 42 percent of southern cities did. When analyzed on a population basis in 1984, 69 percent of medium cities experienced real growth in categorical aid while only 24 percent of large sized cities did. There was less variation in 1985. These figures are on Table II-20.

TABLE II - 20

STATE AID: CATEGORICAL AID

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	54%	43%	46%	57%
Midwest	60	59	40	41
South	62	58	38	42
West	22	48	78	52
City Size:				
Small	43	50	57	50
Medium	31	58	69	42
Large	76	52	24	48
TOTAL ALL CITIES:	48	53	52	47

The variations from year to year are dramatic, too. In 1984, 78 percent of cities in the west had real growth in categorical aid, but only 52 percent budgeted real increases in 1985. On the other hand 24 percent of large cities had real increases in 1984, but twice that number (48%) budgeted them in 1985.

Table II-21 provides a glimpse of recent city experience with federal aid. Sixty percent of cities experienced real declines in federal aid in 1984 and two-thirds budgeted real declines in 1985. Regional variations appeared here too. Ninety-two percent of northeastern cities experienced real declines in federal aid in 1984. In contrast, 50 percent of the western cities responding to the survey experienced real declines. In 1985, 87 percent of northeastern cities budgeted real declines versus 62 percent of southern cities. There were also one city-size group which experienced a lot of change, large cities. The percent anticipating real declines grew from 59 to 73.

TABLE II - 21

FEDERAL AID: TOTAL

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	92%	87%	8%	13%
Midwest	61	67	39	33
South	56	62	44	38
West	50	64	50	36

TABLE II - 21

FEDERAL AID: TOTAL

	Slower than Inflation		Faster than Inflation	
	FY83-84	FY84-85	FY83-84	FY84-85
City Size:				
Small	58	59	42	41
Medium	62	69	38	31
Large	59	73	41	27
TOTAL ALL CITIES:	60	66	40	34

Table II-22 looks at federal aid in absolute dollars. In 1984, 57 percent of cities responding experienced actual declines in federal aid dollars and 54 percent have budgeted declines in 1985. Once again the regional variations are quite significant, 67 percent of northeastern cities experienced actual declines in federal aid, while only 48 percent of western cities did. In 1985, 39 percent of western cities budgeted declines while 72 percent of midwestern cities did. On the basis of city size, less than half of small cities experienced declines in federal aid and only one-third have budgeted declines in 1985. However, two-thirds of medium size cities and 53 percent of large cities experienced declines of federal aid in 1984 and 60 percent of medium and 61 percent of large have budgeted declines in 1985.

TABLE II - 22

FEDERAL AID: TOTAL

	Decreased		Increased	
	FY83-84	FY84-85	FY83-84	FY84-85
Region:				
Northeast	67%	43%	33%	57%
Midwest	54	72	41	28
South	59	59	41	41
West	48	39	52	61
City Size:				
Small	45	32	55	68
Medium	65	60	35	40
Large	53	61	47	39
TOTAL ALL CITIES:	57	54	43	46

On a year to year basis, the most dramatic change is for cities in the northeast. In 1984, 67 percent had declines, but only 43% expect them in 1985. This trend is opposite the one the other three regions are experiencing.

F. Employment Trends

Hiring by cities was slow during 1984 and uneven across the regions, but it will increase during 1985. An equal number of cities, 44 percent of those surveyed, reduced employment and added employees during 1984. The other 12 percent held their work force steady. These data are displayed on Table II-23. One quarter of the cities surveyed said they had a hiring freeze during 1984.

TABLE II-23

EMPLOYMENT TRENDS

	Declined		No Change		Increased	
	FY83-84	FY84-85	FY83-84	FY84-85	FY83-84	FY84-85
Region:						
Northeast	62%	33%	23%	22%	5%	45%
Midwest	54	24	21	32	25	44
South	29	15	3	9	68	76
West	46	15	11	12	43	73
City Size:						
Small	38	14	26	19	36	67
Medium	48	18	7	18	45	64
Large	46	27	0	12	54	61
TOTAL ALL CITIES	44	19	12	17	44	64

The outlook for adding employees will be better in 1985. Almost two-thirds of the cities surveyed plan to increase employment. The number of cities planning to increase employment is larger in every region, however, less than half the cities surveyed in the northeast and midwest will hire. Almost three-quarters of cities in the south and west plan to hire in 1985.

The functional areas where most of the new hiring will occur are involved in the delivery of basic services. Eighty-one percent of cities planning to hire will increase their public safety work force; 75 percent plan to increase sanitation; 71 percent will increase transportation related employment; and 73 percent plan to add personnel to administration.

G. Other Factors Concerning the Fiscal Outlook of Cities

The world of city finances is one of constant change. Three areas of recent change include the expanding use of service contracts by which private firms to take over various municipal functions, e.g. sewage treatment, garbage collection, fleet maintenance, and resource recovery. A second area of change has been the burgeoning growth of various fee for service arrangements designed to offset lower revenue growth, in part caused by tax and spending limits and the recent recessions. However, the most complex and troublesome event is the great expansion of municipal law suits.

In this year's survey cities were asked to describe the types of pending litigation outstanding against them and the approximate value of the awards being sought. Sixty-nine percent of the cities responding indicated they had at least one outstanding law suit while a majority stated they had more than one. The most common suit was a tort liability, but significant numbers of cities also had civil rights and anti-trust suits pending against them. The awards being sought ranged from less than one million dollars to over five million dollars and, somewhat unexpectedly, cities in every region and of every size are being affected by this new problem.

H. The Mythology of Line Item Vetos and Impoundment Authority

The recent debate on who is responsible for the federal budget deficit has raised the call for giving the C ief Executive line-item veto and expanded impoundment authority. One argument often advanced is that states and cities do this and they manage to acheive balanced budgets.

In this survey city officials were asked to indicate whether the Mayor has any authority to change the municipal budget after it is adopted by council. The answers were eye-opening. Seventy-one percent indicated the Mayor had no authority. Another 11 percent said the Mayor was limited to a fixed percentage adjustment with an appropriation but could not move funds between appropriation accounts without council approval. Thirteen percent said the Mayor had a line-item veto and 2 percent said he had impoundment authority. These percentages showed little variation across regions but some across different sized cities. About 20 percent of large city mayors have a line-item veto and 20 percent can realign funds within appropriation totals without council approval. These percentages include a number of cities where the mayor has both types of authority. These are clearly the exception and not the rule.

TABLE - A - 1

CHANGES IN COMMUNITY CONDITIONS

	Improved	Worsened	No Change	Not Sure
Unemployment	76%	10%	13%	1%
Overall Economic Conditions	81	5	12	2
Interest Rates on City Borrowing	29	37	22	12
Local Mortgage Conditions	28	46	21	5
City Fiscal Conditions	64	12	24	1
Cost of Living	33	33	31	3
Cost of Energy	19	55	24	2
Supply of Energy	27	3	67	3
Adequacy of Low Income Housing	27	26	45	2
Water & Sewer Treatment	41	12	47	1
Streets, Roads, Sidewalks	48	32	19	1
Public Transportation	24	14	60	2
Homelessness	10	29	40	20
Availability of Social Services	15	24	54	7
Crime	61	16	23	1
Poverty	12	30	40	18

TABLE A - 2

PREFERENCES FOR TYPE OF DEFICIT REDUCTION TAX INCREASE

Possible Forms of 1985 Tax Act	Strongly Support	Support	Oppose	Strongly Oppose	Not Sure
Raise existing individual and business tax rates	7%	41%	36%	10%	6%
Impose a temporary surcharge on individuals and businesses	4	39	37	11	8
Replace existing income tax with a modified "flat" tax with few deductions and lower rates	17	39	24	5	15
Impose a pure "flat" tax with no deductions or credits and lower rates	7	18	39	20	16
Impose a new tax on all forms of energy	2	18	51	14	15
Impose a new tax on a consumption (e.g., a national sales tax or a value added tax)	15	29	31	12	13

TABLE A - 3

CURRENT PROBLEMS WITH TAX SYSTEM

	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
It is too complicated	50%	44%	6%	0%	1%
Most deductions are loopholes and encourage tax avoidance	24	51	19	1	5
The rich use deductions to avoid paying their fair share	36	39	17	1	7
Businesses use deductions to avoid paying their fair share	25	45	24	2	4
The poor pay too much tax	13	23	46	5	14
The rates are too high for middle income people	24	43	21	3	9
Tax rates are too low for rich people	28	30	30	2	10
Too many people cheat	24	37	24	1	15

APPENDIX I

CITIES RESPONDING TO PART I OF NLC's FISCAL SURVEY

Aberdeen, SD
Akron, OH
Albuquerque, NM
Alexandria, VA
Allentown, PA
Alton, IL
Arlington Hts, IL
Artesia, NM
Baton Rouge, LA
Beaumont, TX
Beaverton, OR
Birmingham, AL
Boulder, CO
Brigham City, UT
Brooklyn Park, MN
Butte, MT
Chapel Hill, NC
Charleston, SC
Charleston, WV
Charlotte, NC
Cleveland Park, KS
Colorado Springs, CO
Columbus, OH
Coral Gables, FL
Corpus Christi, TX
Dallas, TX
Dayton, OH
Des Moines, IA
Detroit, MI
Dover, DE
Dover, NH
Dayersburg, TN
East Orange, NJ
El Paso, TX
Espanola, NM
Estes Park, CO
Eugene, OR
Evanston, WY
Everett, WA
Fairfax County, VA
Farmington, NM
Fayetteville, NC
Flint, MI
Fort Collins, CO
Fort Worth, TX
Fresno, CA
Green River, WY
Greenbelt, MD
Helena, MT
Houston, TX
Indianapolis, IN
Jackson, MS
Kankakee, IL
Kansas City, MO
Kokomo, IN
Las Vegas, NV
Lemais, IA
Lexington, KY
Little Rock, AK
Long Beach, CA
Los Angeles, CA
Macon, GA
McCook, NB
Meadville, PA
Milwaukee, WI
Minneapolis, MN
Montclair, CA
Montgomery, AL
Myrtle Beach, SC
New Orleans, LA
New York, NY
Norfolk, VA
North Mankato, MN
North Miami Beach, FL
North Tarrytown, NY
Oak Harbor, WA
Oak Ridge, TN
Oakland, CA
Omaha, NE
Pasadena, CA
Paterson, NJ
Pensacola, FL
Peoria, AZ
Peoria, IL
Pierre, SD
Pittsburg, PA
Plano, TX
Portland, ME
Raleigh, NC
Rayville, LA
Reno, NV
Richmond, VA
Rochester, NY
Rock Hill, SC
Rockford, IL
Rockville, MD
Rutland, VT
Salem, OR
Salt Lake City, UT
San Francisco, CA
San Jose, Ca
Savannah, GA
Scotland Neck, NC
Seaford, DE
Seattle, WA
South Lake Tahoe, CA
Spartanburg, SC
Springfield, MO
Sterling Hts, MI
Sunnyvale, CA
Syracuse, NY
Tacoma, WA
Tampa, FL
Thomasville, GA
Thomson, GA
Thornton, CO
Trenton, NJ
Trotwood, OH
Troy, MI
Tucson, AZ
University City, MO
Vancouver, WA
Waco, TX
Warrensburg, MO
Washington, DC
Whitehall, OH
Wichita, KS
Wilmette, IL
Winona, MN
Winston Salem, NC
Yuma, AZ

APPENDIX II

CITIES RESPONDING TO PART II OF NLC's FISCAL SURVEY

Aberdeen, SD
Akron, OH
Albuquerque, NM
Alexandria, VA
Allentown, PA
Arlington Hts, IL
Artesia, NM
Baltimore, MD
Baton Rouge, LA
Beaumont, TX
Beaverton, OR
Birmingham, AL
Boulder, CO
Brigham City, UT
Brooklyn Park, MN
Butte-Silver Bow, MT
Chapel Hill, NC
Charleston, SC
Charleston, WV
Charlotte, NC
Cleveland, OH
Colorado Springs, CO
Columbus, OH
Concord, CA
Coral Gables, FL
Corpus Christi, TX
Dallas, TX
Dayton, OH
Des Moines, IA
Detroit, MI
Dover, DE
Dyersburg, TN
East Orange, NJ
Espanola, NM
Estes Park, CO
Eugene, OR
Evanston, IL
Fairfax County, VA
Farmington, NM
Fayetteville, NC
Fort Collins, CO
Fort Worth, TX
Fresno, CA
Green River, WY
Greenbelt, MD
Greenwood, SC
Hazelwood, MO
Helena, MT
Houston, TX
Indianapolis, IN
Jackson, MS
Jacksonville, FL
Kansas City, MO
Kokomo, IN
Lafayette, LA
Las Vegas, NV
Lexington, KY
Little Rock, AK
Long Beach, CA
Los Angeles, CA
Macon, GA
Meadville, PA
Milwaukee, WI
Minneapolis, MN
Montclair, CA
Montgomery, AL
Myrtle Beach, SC
New Orleans, LA
Norfolk, VA
North Mankato, MN
North Miami Beach, FL
North Tarrytown, NY
Oak Harbor, WA
Oak Ridge, TN
Oakland, CA
Omaha, NB
Overland Park, KS
Pasadena, CA
Paterson, NJ
Peoria, AZ
Pensacola, FL
Peoria, IL
Pierre, SD
Pittsburg, PA
Plano, TX
Portland, ME
Raleigh, NC
Reno, NV
Richmond, VA
Rochester, NY
Rock Hill, SC
Rockford, IL
Rockville, MD
Salem, OR
Salt Lake City, UT
San Francisco, CA
San Jose, CA
San Mateo, CA
Savannah, GA
Scotland Neck, NC
Seaford, DE
South Lake Tahoe, CA
Springfield, MO
St. Paul, MN
Sterling Hgts, MI
Sunnyvale, CA
Syracuse, NY
Tacoma, WA
Tampa, FL
Thomasville, GA
Thomson, GA
Thornton, CO
Trenton, NJ
Trotwood, OH
Tucson, AZ
University City, MO
Vancouver, WA
Waco, TX
Warrenburg, MO
Whitehall, OH
Wilmette, IL
Winona, MN
Winston-Salem, NC
Yuma, AZ

Chairman **Domenici**. Senator Chiles, do you have any questions?

REVENUE OUGHT TO ENTER INTO THE QUOTIENT

Senator **Chiles**. Mr. Chairman, I want to thank the panel for coming before us. I listened to the Commissioner applauding our efforts. I said that might be the last time we have that in a statement, given the problem that we have before us.

There is just no way that we can tackle this kind of deficit without getting a lot of these programs that you're talking about. How we can try to do that? I think the fairest way is not to leave anybody out, not to leave any segment out. I happen to feel—and I don't have a lot of support on it on either side—that revenue ought to enter into the equation. I think you make the point very well that we're shifting it back. You have to raise taxes if we don't.

Essential services have to be paid for. We've been through this exercise once in 1981, and we whacked a lot of things then—and some of them were even programs that you've told us we've cut too much then. But now we're back again.

So it isn't like there is a lot of easy fat you can get your hands on. It just isn't there now.

So we're going to have to whack a lot more, and we're going to add to your burden. No doubt about it. We're going to add to the problems that you're going to have. But somehow we can't keep going with interest on the debt at $143 billion this year and climbing. It's the fastest growing of all the Federal programs. And it in itself is now becoming the Pac Man monster that's eating everything else.

Unless we deal with that, we can't set priorities, and neither can you. I think we're all in a terrible, terrible plight as high interest rates continue. We've got a trade deficit of $140 billion this year. But I think we're exporting all right. But we're exporting jobs instead of products.

So that's something that we're going to have to deal with. I hope as we take some of these steps I trust we're going to take, you'll realize we understand some of the pain that we're going to cause you. But I don't know how we deal with it.

PUT DEFENSE ON THE TABLE

Mr. **Martin**. Senator Chiles, Mr. Chairman, let me just make one comment in light of some of the comments that you have made. It seems to me that it's going to be very difficult to deal with so many of these issues because there's so many things off the table. And we have taxes off the table, we have the Social Security COLA off the table, we have defense off the table, and that, frankly, doesn't leave very much else on the table to deal with the problem.

And I know that we don't like to deal with things very close to home, because we don't want to be the ones to make cuts in our own area.

But in my opinion, defense has got to be on the table. Not because we're opposed to national defense, not because we think we ought to be a second class nation, defense-wise. We ought to be No. 1.

But I just use as an example something very close to my own home in my own State. Senator Mitchell and Senator Cohen, I'm sure, can brief you in great detail on it. The Department of Defense is planning, and will be spending, very shortly, roughly $24 to $25 million to build a 13-bed hospital at one of the Air Force installations—with empty hospital beds all over my county.

Now, the Department of Human Services in my State has made a number of attempts to say it shouldn't be built. But DOD has said it is needed.

Now, it seems to me that if these kinds of things were done in every single defense installation in this country, we could do something about that problem. But if we simply say it's off the table, then let's forget it. Why don't we give them a blank check and let the generals of this country spend the bucks.

Chairman **Domenici**. The problem is we'll reduce defense, but that hospital will get built. That's the problem we have. It's pretty tough for us to fix that.

But there are plenty of examples like that, I'm sure. We're about to have one built in my home city, and I heard recently the Defense Department is putting out contracts to repair sod—I guess that means grass. We're pretty dry out there, but, I'm not so sure that if the Pentagon was interested in sharing in deficit reduction that those kind of projects couldn't be put off. I don't know how many hundreds more we have. But I don't know that we have an effect on them when we reduce defense up here.

But in any event, we greatly appreciate your testimony.

Do you have anything else, Senator Chiles?

Senator **Chiles**. No, sir, other than to say I think a lot of us are willing to really work on this. Reluctantly we must administer some pain to a lot of programs and a lot of people. But we are also saying everything has to be on the table.

The only way that we'll get a major reduction package—and you've all said how your groups have so the pain is shared evenly. It's the biggest problem on the block—the only way we'll get it is if we do get everything on the table.

Chairman **Domenici**. Thank you very much. It's good to have you all here. We'll be seeing you soon.

Good luck, Mayor. I don't know who's running against you, but good luck. [Laughter.]

The committee stands adjourned.

[Whereupon at 3:42 p.m., the committee adjourned.]

WRITTEN QUESTIONS FROM SENATOR SASSER TO GOVERNOR CARLIN AND THE RESPONSES

Governor Carlin, you've been quoted as saying that the Administration budget raises questions of "fairness." You've pointed out that "aid to state and local government is only 11 percent of the budget, but these programs are receiving about 57 percent of the budget cuts."

In pursuit of fairness while reducing the budget deficit, just what would be a fair level of cuts for state and local governments to absorb ... and what programs would you cut?

In such an event, do you have any priority list or contingency list, say, of "most-necessary," "greatly necessary," and "not-so-necessary" programs, or anything of that sort? If so, could you provide this Committee with such a list?

The NGA position on the federal budget states that selected means-tested entitlement programs — AFDC, Food Stamps, Title XX, Medicaid, SSI, child nutrition, and child welfare services — should be provided full funding. It also says that non-defense discretionary spending should be held to the same level as in 1985 and that national defense appropriations should be held to the 1985 level plus inflation. Regarding other entitlement and mandatory spending programs, we have suggested a one-year freeze on cost of living increases and long term reforms to increase budget controllability.

This is not to say that some of these programs are "most necessary" and others are "not so necessary." All federal programs have a justification, and no one has ever really tried seriously to determine the relative merits of defense and entitlement programs, except in theoretical terms. Rather, the Governors' recommendations are based on a judgment that weighs the importance of the programs and the budget cuts or enhancements that have affected the funding level of the categories over the past several years.

It seems to me that general revenue sharing is perhaps the most efficiently operated federal aid program we have. Roughly a tenth of one percent of GRS funds go for administration.

And over the past six years, the number of employees in the Treasury Department's Office of Revenue Sharing has declined by a third. It seems to me that this Administration would want to keep any program that was administered so economically.

Part of the economy involved here is because only one unit of government collects revenues for the program, and only one distributes them. Would any of you care to estimate just how much more would it cost to pay for the services now financed by GRS ... if the more than 39,000 local governments took on the responsibility of replacing GRS funds?

The efficiency of general revenue sharing has always been a major strength of the program, and many states have clearly found the arrangement to work well, as so many of them have for many years administered local aid programs that are similar in concept to revenue sharing. However, I think more important than the administrative efficiency of the program is the federalism rationale that underpins it: that is, that the federal government — because of mandates it imposes, costs borne by local governments in running programs of national importance, and a federal commitment to support local entities — has strong reasons for providing aid of a general nature to cities and counties.

> **As you may know, I've introduce legislation to extend general revenue sharing for another five years. If we accede to the Administration's budget, however, we will have to face up to another reality.**
>
> **It's been estimated that county governments across Tennessee would have to raise property tax rates by 18 cents ... just to maintain, at current levels, those services now financed by GRS.**
>
> **My question to the panel is twofold: first, to what extent will the states pick up the tab for these local services; and second, is there any estimate, nationwide, on local tax increases that will be required to replace GRS funding?**

As I noted in my testimony, the fiscal condition of states in 1984 was somewhat improved over the very difficult 1982-1983 period, when 44 states raised taxes and 43 reduced spending to balance their budgets. Due to the budget reductions over this period, state spending in 1984 was still below the real level attained in 1981. The 1985 surplus projected for states is $5.3 billion, which represents only 2.9 percent of spending. The financial markets prefer a 5 percent margin to maintain the highest ratings for state bonds. In addition, 50 percent of the balance is expected to be in only five states, with most other states either reporting very small balances or projecting deficits.

State governments are not in a position to pick up federal program reductions. Experience from the budget reductions enacted in 1981 indicates that the state response to reduced federal aid varied widely, with some states funding programs with their own revenues and some states unable to do so. I think it is important for Congress to recognize that states have very different fiscal outlooks, and that a uniform federal program reduction will not have uniform results across the country. Accordingly, those programs which Congress wishes to have continued on a national basis must be funded at the national level. That is why, for example, we feel so strongly that such programs as AFDC, Food Stamps, and Medicaid should not be further reduced.

In considering the question of which programs states will pick up, it is important to note that because of the 1981 cuts, because of the recession, and because of deferred state spending as a result of these two factors, states are now making major readjustments — restoring cuts they were forced to enact during the recession, bringing their tax rates back into line after they had to raise revenues because of the shortfalls they faced, and funding emerging priority programs that were deferred over the past few years. States would have to weigh the needs created by federal program reductions against all these competing demands, and Congress cannot assume that money would be available at the state level to make up for federal funding reductions.

> **Gentlemen, I recently held budget field hearings in my home state of Tennessee. The focus of these hearings was to determine the extent and impact of economic and community development program cuts contained in the FY 1986 budget, submitted by the President some three weeks ago.**
>
> **I must tell you, without a doubt, the officials that I talked to, comprising of county executives, mayors, development specialists, of both political stripes, testified to me that loss of economic and community development funds would adversely impact the quality of life and the ability of their communities to compete for industrial development in today's changing world.**
>
> **On a nationwide basis, could each of you comment on the dangers of backing the federal government out of its commitment to public-private partnership with our local communities?**

The Governors support the continued funding of EDA, SBA, UDAG and the FmHA Business and Industrial (B&I) programs at fiscal year 1985 levels as well as level funding for the CDBG and housing programs. I am attaching for your information a resolution that was adopted by the NGA Committee on Economic Development and Technological Innovation at our Winter Meeting. While NGA supports an overall reduction of federal spending to reduce the federal deficit, including cuts in domestic discretionary spending, these programs assist our economies to grow and produce revenues that can close the deficit gap. Effective federal, state and local economic development programs are cost-efficient uses of public funds. They bring economic opportunity and full employment to people who are eager to be productive, wage-earning citizens.

The loss of the federal community and economic development funds will likely have a great impact on the most distressed urban and rural areas because the federal community and economic development programs utilize formulas which target funding to areas of poverty and unemployment. Urban areas will experience a 22.7 percent decrease in CDBG funds and a moratoria of housing funds at a time when the cost of urban housing is increasing, rental housing units are being lost and the number of homeless is increasing. Rural areas are being devastated by the farm crisis which is consuming individual assets and laying low private sector corporations and institutions.

It seems unwise public policy to disinvest in our economic future. Without these federal economic and community development programs which are slated for elimination, moratoria and drastic reduction, our infrastructure will continue to crumble and our health to be endangered. Maintenance and replacement of our public capital, if not funded now, will cost much more to fund in later years.

Attachment

COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGICAL INNOVATION

Committee Resolution
Federal Economic and Community Development Programs

The National Governors' Association's (NGA's) policy position on Economic Development Challenges of the 1980's, Intergovernmental Cooperation in Economic Development (E.-3) reads in part:

> The continued use of many major federal economic development tools is now threatened by reductions in federal funds. The federal role in economic development should be to create a better climate for increased private investments and to provide the more comprehensive resources of the federal government to areas experiencing significant economic problems.

The administration's fiscal year 1986 budget calls for the elimination of the Urban Development Action Grant (UDAG) program, the Business and Industrial (B&I) program, the Small Business Administration (SBA) and the Economic Development Administration (EDA). The proposed fiscal year 1986 budget also calls for a large reduction in funding for the Community Development Block Grant (CDBG) program.

The submitted budget would eliminate the Rental Housing Development (HODAG) program and place a moratorium on major federal housing programs.

The federal role in state and local development initiatives is vital and still needed. programs such as UDAG, EDA and CDBG have provided the financial incentives to spur job creation and capital expansion in distressed communities which have escaped the benefits of economic recovery. Thousands of jobs will not be created and millions of dollars in private investment will be lost, if these programs are terminated or reduced.

The members of NGA's Committee on Economic Development and Technological Innovation firmly support the continued funding of these targetted economic development programs. These important programs have already suffered major reductions over the last four years. The NGA supports an overall freeze in non-defense domestic discretionary spending as a contribution to the reduction of the high national deficit. NGA can not condone, however, additional program cuts or eliminations since they are neither warranted nor cost effective.

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AMERICAN LUNG ASSOCIATION
The Christmas Seal People ®

STATEMENT OF THE

AMERICAN LUNG ASSOCIATION/

AMERICAN THORACIC SOCIETY

TO THE

SENATE BUDGET COMMITTEE

February 26, 1985

ALA/ATS STATEMENT TO SENATE BUDGET COMMITTEE

The projected federal deficits over the next few years hold awesome implications for all aspects of America's social policy agenda including health. The herculean efforts of the Senate Budget Committee to deal with this fiscal trauma is commended by the American Lung Association and the American Thoracic Society, ALA's medical section.

We urge you to keep in mind as you proceed to consider the range of options for this overriding public problem that programs which are the bulwark of U.S. health care defense have proven overly handy targets for retrenchment in the past. We have come to realize what a false economy such "savings" represent. In view of the dramatic aging trends in this country (attachment 1), a cutback on the federal commitment to disease prevention and containment at this time would end up costing this country many times over the relative minuscule amounts of health dollars that might be temporarily saved. It should be evident that in the face of limited dollars that the best way to contain health care costs is to prevent people from getting sick and to prevent acute episodes of illness from developing into chronic conditions.

The biomedical research and public health programs of the federal government give strength and leadership to our entire system of health care. In the absence of strong federal commitment and support, neither state or local governments nor the private sector are financially capable of continuing these vital programs. Such programs are essential if we are ever to address the nation's health care problem. Therefore, it is recommended that the federal budget increase discretionary health funding by at least 20% over the next 3 years. Such funding levels would serve to restore these programs to the level of national priority they deserve, would allow for real growth in basic research and would encourage development of critically needed manpower.

FEDERAL SUPPORT FOR LUNG RESEARCH

Federal support came late to the field of pulmonary research. As a vital component of the work of the NHLBI, lung research is little more than a decade old. Previous neglect in the face of an escalating incidence in lung disease significantly delayed progress in helping prevent, diagnose and treat life threatening pulmonary diseases.

As the Division of Lung Diseases of NHLBI became operational in the early 1970's and expert staff was recruited, breakthroughs in pulmonary research began to occur. It is rewarding to observe the dramatic success in reducing deaths among babies with respiratory distress syndrome - a condition which was almost invariably fatal just ten years ago. In adults, increased knowledge of the function and structure of the lung is helping to improve treatment of such debilitating diseases such as emphysema.

This progress must continue and indeed must be accelerated. Diseases of the lungs are among the most frequent causes of suffering, disability and death, rivaling cardiovascular disease and cancer in the United States today.

The scope of lung disease encompasses a wide range of acute and chronic entities that affect people of all ages, ethnic groups and socioeconomic standing. Lung diseases account for a staggering number of days lost from work and school or spent in a hospital. Chronic Obstructive Pulmonary Diseases (COPD)--including emphysema, chronic bronchitis, and asthma--rank fifth and lower respiratory infections (primarily pneumonia) rank sixth among the leading causes of death in the United States. Lung cancer is the leading cause of cancer death in males, and is rapidly approaching that status in females.

Despite these grim facts, remarkable progress has been made in the past decade towards unmasking the underlying mechanisms of these diseases. Basic research achievements have made it possible for scientists to examine and begin to understand disease processes on the cellular level. This new knowledge is being applied by clinical and basic research laboratories, hospitals, and health-care product manufacturers towards the development of greatly improved diagnostic and therapeutic products. And, as new biotechnologies continue to provide us with new capabilities, medical science finds itself within sight of conquering many of these tragic diseases. Yet, we have a long way to go before this goal is realized. Much about the pulmonary system and its diseases remains unknown.

Progress in lung diseases has been achieved on many fronts, enlisting the concerted efforts of scientists of many disciplines--cell biologists, physiologists, immunologists, biochemists, pharmacologists, epidemiologists, microbiologists--the list is almost endless. Not to be forgotten are the behavorial scientists and public health workers who educate the public on how to take a personal role in their lung health, whether it be to prevent lung disease or to better cope with the effects of chronic disease.

Despite the apparent diversity of many lung diseases, we are now discovering many cellular and environmental underlying themes that are common to all these diseases. And, in many cases, there is an interplay between aspects of the laboratory science and environmental arenas.

Specific Problem Areas:

Many of the common themes of lung diseases such as the function of the cells involved in the immune system are applicable to specific diseases. But each disease also presents its own set of specific problems. The understanding of cellular and immune responses are partricularly relevant to interstitial lung diseases, but specific work in this area should include study of the mechanisms of scar formation in the lung. Work in COPD may revolve around study of the protease/antiprotease system, but additional study on the response of airways and mucous glands to chronic irritation is needed.

Although asthma can be to a large extent controlled, the ultimate solution is effective drug treatment of this reversible disorder of the airways. This will come about when we learn more about the chemical mediators (such as histamine and the newly recognized leukotrienes) that mediate episodes, and aspects of the immune response that often trigger asthma episodes.

Pediatric lung diseases are a continuing problem. Neonatal respiratory distress is the leading cause of death in the first month of life. We now know that this condition, which is seen primarily in premature infants, is due to a deficiency in surfactant, a substance secreted by lung cells that stabilizes the elasticity of lung tissues. A priority for the 1980s will be finding ways of synthetically augmenting the deficient surfactant or stimulating its production within the lung.

Cystic fibrosis is a lethal hereditary disease of childhood that affects the lungs as well as other organs of the body. Abnormal gland secretion, the primary defect, is still poorly understood. Research is essential to work out the basic abnormalities in membrane transport of simple ions and develop ways of overcoming the defect.

One of the most tragic family situations is *sudden infant death syndrome* (SIDS), the sudden death of an infant while asleep. We now believe that abnormal cardiopulmonary control is the culprit. It is essential that we find a way of identifying this abnormality in the fetus of newborn and institute intervention strategies--such as monitoring of breathing during sleep--in high-risks infants.

The introduction of effective antibotics in the past few decades has gone a long way towards controlling *infectious lung diseases*. *Tuberculosis* is no longer the major health threat in the United States, but it remains a public health problem here and one of major impact in many underdeveloped areas of the world, where an estimated four to five million virulent cases occur annually. Pneumonia and influenza are now preventable with the introduction of vaccines; but pneumonia, in particular, still represents an important threat to elderly, the chronically ill, and patients who are immune-compromised as a result of immunosuppressive therapy for other conditions. In fact, pneumonia is the leading cause of death in chronically-ill patients, and as a result, is an important limiting factor in medical advances, such as cancer chemotherapy and organ transplantation.

Biomedical Research Opportunities:

Goals for future research in respiratory infections include developing new and better vaccines for pneumonia, shorter treatment periods for tuberculosis, development of better diagnostic techniques, and discovering methods to prevent the spread of respiratory infections in hospitals. Many of these goals can be met if lung researchers can make use of the new biotechnologies and continue to learn more about immune mechanisms.

Another fertile area for research in lung disease is that of cardiopulmonary disease. The integrity of blood circulation through the lungs is essential to health. Among the problems that may arise in this area are pulmonary hypertension and pulmonary edema (fluid build-up)--both consequences of chronic heart or lung failure--and pulmonary embolism (lodging of blood clots from elsewhere in the body in lung blood vessels). All are life-threatening conditions requiring more study. In particular, better strategies must be devised to prevent emboli from forming and to develop drugs capable of dissolving them once they have appeared.

Lung cancer continues to threaten all cigarette smokers and, perhaps--as has been recently postulated--involuntary or passive smokers as well. Little progress has been made curing this disease, one of the most lethal of all cancers. Better methods for early diagnosis are essential, and a better understanding of the underlying mechanisms of cancer in general is needed before we can expect to make any meaningful breakthroughs in the treatment of this disease.

As is clear from this summary, much has been accomplished in recent decades--but much more remains to be done. We are now on the threshold of a host of remarkable breakthroughs and are already experiencing the first results of applying new biotechnologies and recent insights into cell biology. Important advances in diagnosis, therapy and prevention of lung diseases are occuring more frequently than before, but still at a slower rate than we believe possible. With broad-based public support, the scientific community can propel us into a new era in the conquest of lung disease.

* * *

Another major area of budgetary concern to the ALA is the matter of nonprofit mail rates. The ALA has always depended upon the mails to raise its support and inform the community about lung disease. Third-class nonprofit bulk mail rates were escalated preceptiously four years ago when the Postal Revenue Foregone budget item was reduced in contradiction to the 16-year phasing schedule adopted by Congress in 1970. Since then, Congress has restored a measure of equity and stability to nonprofit rates and the entire nonprofit community is greatful. Now the Administration has recommended terminating federal funding for the Postal Revenue Foregone item which would result in an increase of more the 100 per cent in these rates. We urge you to recommend a budget that includes full funding for Revenue Foregone at the legally mandated levels as Congress intended.

Attachment 1

Table 1-1 The Total Aging Population in the United States

Year	*Number of Persons Age 65 and Over (Thousands)*	*Percent of Total Population* [a]	*Percent of Increase from Preceding Decade*
1900	3,099	4.1	—
1910	3,986	4.3	28.6
1920	4,929	4.7	23.7
1930	6,705	5.4	36.0
1940	9,031	6.8	34.7
1950	12,397	8.2	37.3
1960	16,675	9.2	34.5
1970	20,087	9.8	20.4
1980	25,544	11.3	27.1
Projections:			
1990	29,824	12.2	16.7
2000	31,822	12.2	6.7
2010	34,837	12.7	9.5
2020	45,102	15.5	29.5

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[a] Projections are from Series II of the *Current Population Reports*, which assumes that women average 2.1 births at the end of the child-bearing years.

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-23, No. 59, "Demographic Aspects of Aging and the Older Population in the United States" (May 1976); Series P-25, No. 704, "Projections on the Population of the United States: 1977 to 2050" (July 1977). The 1980 figures are from the *Statistical Abstract of the United States, 1981*.

Table 1-2 U.S. Population Age 65 and Over, 1980

State	*Total (Thousands)*	*Age 65 and Over (Thousands)*	*Age 65 and Over as a Percent of State Total*	*State*	*Total (Thousands)*	*Age 65 and Over (Thousands)*	*Age 65 and Over as a Percent of State Total*
Florida	9,740	1,685	17.3	Illinois	11,418	1,261	11.0
Arkansas	2,286	312	13.6	Montana	787	85	10.8
Rhode Island	947	127	13.4	Ohio	10,797	1,169	10.8
Iowa	2,913	387	13.3	Indiana	5,490	585	10.7
Missouri	4,917	648	13.2	Washington	4,130	431	10.4
South Dakota	690	91	13.2	California	23,669	2,415	10.2
Nebraska	1,570	206	13.1	North Carolina	5,874	602	10.2
Kansas	2,363	306	12.9	Idaho	944	94	10.0
Pennsylvania	11,867	1,531	12.9	Delaware	595	59	9.9
Massachusetts	5,737	727	12.7	Michigan	9,258	912	9.9
Maine	1,125	141	12.5	Louisiana	4,204	404	9.6
Oklahoma	3,025	376	12.4	Texas	14,228	1,371	9.6
New York	17,557	2,161	12.3	Georgia	5,464	517	9.5
North Dakota	653	80	12.3	Maryland	4,216	396	9.4
West Virginia	1,950	238	12.2	Virginia	5,346	505	9.4
Wisconsin	4,705	564	12.0	South Carolina	3,119	287	9.2
Minnesota	4,077	480	11.8	New Mexico	1,300	116	8.9
Connecticut	3,108	365	11.7	Colorado	2,889	247	8.5
New Jersey	7,364	860	11.7	Nevada	799	66	8.3
Mississippi	2,521	289	11.5	Hawaii	965	76	7.9
Oregon	2,633	303	11.5	Wyoming	471	37	7.9
Vermont	511	58	11.4	Utah	1,461	109	7.5
Alabama	3,890	440	11.3	Alaska	400	12	3.0
Arizona	2,718	307	11.3				
Tennessee	4,591	518	11.3				
Kentucky	3,661	410	11.2				
New Hampshire	921	103	11.2				

SOURCE: U.S. Department of Health and Human Services, Office of Human Development Services, *The Elderly Population: Estimates by County, 1980*

COMMUNITY SERVICE SOCIETY

STATEMENT ON PRESIDENT REAGAN'S FY 1986 BUDGET PROPOSALS

March 13, 1985

The Community Service Society is concerned about the negative impact that the President's proposed budget for FY 1986 will have on the millions of Americans living below the poverty level. Federal economic policy adopted by the Reagan Administration in 1981 has brought about economic recovery, but not for all. This policy has vastly increased the budget deficit and caused a corresponding huge increase in the federal debt. The Administration proposes to solve the deficit problem by making large cuts in domestic discretionary spending and slowing the growth in some entitlement programs, while continuing to reduce taxes and increase military spending. CSS is particularly disturbed that health and housing programs are targeted for major spending cuts in FY 1986. The magnitude of the proposed funding withdrawal represents a fundamental change in federal policy to provide the poor with decent housing and health care. CSS believes that reducing the deficit is an urgent priority, but not at the expense of the poor. The President's plan again makes the poor, the hungry, the sick, the homeless and the jobless bear a major share of the burden to balance the nation's budget. As Congress deliberates its deficit reduction package, CSS asks that the burden be shared more equitably, more of it by those not so dependent on health and social programs. A large military buildup cannot justify waging war on the needy of this nation.

The Community Service Society urges Congress to:

o Maintain FY 1984 funding levels for all employment and training programs and the economic development program

o Maintain FY 1985 budget authority levels for all low-income housing and community development programs

o Oppose the cap on federal Medicaid spending and higher cost-sharing for Medicare beneficiaries

o Oppose the elimination of the Community Services Block Grant, the Work Incentive Program and the Legal Services Corporation

LUTHER W SEABROOK *Chairperson* JEAN T D BANDLER DSW *President* REV DAVID A GARCIA *Vice Chairperson*
ALYCE P HILL, Ph D *Vice President* W JAMES TOZER JR *Treasurer* VIRGINIA HAYES SIBBISON Ph D *Secretary* BERTRAM M BECK *General Director*

o Oppose the imposition of a ceiling on foster care expenditures that does not conform to the provisions of the Adoption Assistance and Child Welfare Act (Public Law 96-272).

Our major concerns with the President's spending goals are in the areas delineated below:

EMPLOYMENT, TRAINING AND ECONOMIC DEVELOPMENT

The Administration's proposed 1986 budget for employment and training programs reflects the nation's growing concern with the national deficit but narrowly focuses on the needs of the unemployed. As of 1985, there were 8.5 million unemployed persons, many of whom have acute training needs, such as dislocated workers, and notably long-term unemployed minorities. The economic recovery has not absorbed these workers mainly because new skills are required for the growing industries, and they are often concentrated in areas where the industrial base is declining or in the process of restructuring job patterns. The need for training programs linked to the private sector and economic development activities has probably never been greater. However, as the following discussion shows, the Administration has chosen to cut programs during this critical period.

The Job Corps is one of the best programs developed for addressing the job needs of youth. Yet, the Administration has proposed abolishing the program. In New York State, termination of the Job Corps would mean the loss of $30.1 million for disadvantaged youth and the closing of seven Job Corp Centers, two of which are located in New York City.

The Administration has also proposed reductions for the Job Training Partnership Act Summer Youth Employment Program (JTPA-SYEP) under Title IIB, which provides youth with subsidized employment opportunities. In 1984, New York City had nearly 70,000 youths for 41,000 SYEP slots. The Administration contends that the SYEP programs did not spend all of the money allocated in 1984, and wants to rescind the additional $100 million appropriated for 1985 SYEP activities. The proposals overlook the fact that an additional $100 million for the 1984 budget did not become available until the summer was almost over; thus, there was virtually no time left for the money to be spent.

Once again the Administration is proposing the reduction of the minimum wage to $2.50 per hour for youth during the summer months while allowing the Targeted Jobs Tax Credit (TJTC) program to expire at the end of 1985. This approach is open to serious question. TJTC employers already have an opportunity to increase jobs for youths without actually paying the minimum wage. TJTC enables an employer to get an 85 percent tax credit on the first $3,000 in wages paid to an economically disadvantaged youth (16 to 17 years old) between May and September. The credit is equal to more than the savings that an employer might gain by hiring a youth at $2.50 per hour during the summer. The benefits are also substantial on a annual basis. The year-round TJTC program provides employers with a 50 percent credit on the first $6,000 in wages paid to an individual from a targeted category. In 1984, over 45,000 New Yorkers were certified under the program, representing a total potential tax credit of $200 million to employers.

The Work Incentive Program (WIN) is among the employment programs that the Administration proposes phasing out. Targeted to help Aid to Families with Dependent Children (AFDC) recipients secure employment through various training and employability activities, WIN is budgeted at $267 million for 1985. With the proposed termination of the program for 1986, New York State would lose almost $22 million of WIN funds. In 1984, the State served 166,000 persons through WIN, and over 16,000 WIN participants were placed in unsubsidized employment, saving millions of dollars for taxpayers, more than justifying the cost of the program. The Administration's suggestion that persons eligible for WIN could be served by programs under Title IIA of JTPA, without providing additional funding for JTPA, would seriously undermine efforts to enable AFDC recipients to obtain employment.

Economic development proposals do not have a high priority in the budget. Moreover, the Administration is proposing abolishing the Economic Development Administration and the Small Business Administration and terminating Urban Development Grants, all of which have made important impacts on local economic development activities. In place of these programs, the Administration is proposing to establish "enterprise zones" which would provide tax incentives to create jobs. Its job creation potential for low-income residents has yet to be demonstrated.

INCOME SECURITY

The President's budget proposals are of concern with respect to the Aid to Families with Dependent Children (AFDC) program. The Administration has proposed four changes, each of which would be detrimental to New York City and its public assistance population.

The proposed administrative cap would change the mechanism for payment of administrative costs from a federal matching share to a fixed block grant. There would be no relief from the additional administrative costs incurred as a result of new federal mandates, increased caseloads during economic downturns, or other uncontrollable caseload dynamics.

The proposal to end the parent's benefit when the youngest child reaches age 16, rather than the present law ending it when the child reaches age 18, would shift a portion of the adult AFDC caseload to the Home Relief program. The proposal would not do anything to help these parents become employed or employable, but would simply eliminate their eligibility for federally assisted benefits.

A proposed requirement that single minor parents live with their own parent(s) in order to be eligible for AFDC benefits, except under certain specified conditions, would again shift a portion of that caseload to the state-local Home Relief program. Alternatively, if the state were to impose an equivalent requirement in Home Relief, young mothers and children would be faced with the choice of living under unpleasant circumstances in order to receive benefits or being left with no means of support altogether.

The proposed mandatory work program which the state would be forced to establish would be an administrative nightmare, with the likely results of increasing paperwork, administrative costs, and error rates -- while producing no commensurate benefits for the overall caseload. Realistic voluntary work programs are a much more sensible and cost-effective approach to combining work and welfare; mandatory, federally imposed programs which reduce the state's flexibility and judgment with respect to its caseload benefit neither state nor recipient.

HOUSING AND COMMUNITY DEVELOPMENT

New York City faces a critical shortage of rental housing, with a two percent vacancy rate citywide and close to one percent at rent levels affordable to lower income households. Pressures in the low-rent sector have reached emergency proportions, evident in the rapidly rising numbers of homeless families--3,400 families presently sheltered by the city, including over 7,000 children --and the highest numbers of homeless individuals since the the Great Depression. Over 170,000 households are counted on the waiting lists of the Housing Authority, and "doubling up" in public housing is estimated at well over 17,000 units. The severe shortage in the city's supply of habitable, even if substandard, low-rent units, worsened by continuing abandonment and gentrification trends, can be seen as a major factor in displacement and resulting homelessness among low-income families. Increasing rent levels--a 25 percent increase in mean rents over the three years--exert a major toll on the rent burdens carried by low-income households. These trends point to an urgent need for federal assistance, both in preserving and expanding the low-cost housing stock and in providing rental assistance to enable poor and elderly households limited by fixed incomes to meet the rising rents required to keep their homes.

The Community Service Society is alarmed by the Administration's proposed cuts, an array of moratoria and program eliminations that represent a near-complete withdrawal of federal assistance for low-income housing and community development programs. Current levels of federally subsidized housing development activity in New York City, already sharply curtailed by the severe cutbacks of FY 1981, can be expected to come to a standstill by 1986 unless Congress acts to restore past budget levels. We estimate the combined impact of the Administration's proposals on New York City would be to cut current annual commitments to housing and community development activities by over $300 million dollars. Major budget casualties would include the low-income elderly who have been the primary beneficiaries of Section 202 direct loans and Section 8 rental assistance; both programs are proposed for a two-year moratorium. The 23 percent cutback in the Community Development Block Grant Program (a loss of over $49 million annually) would seriously impede the city's ability to repair and improve its abandoned housing stock and provide housing resources for low-income families with children, many of whom bear substantial risks of homelessness over the near future. Cancelled federal commitments to moderate rehabilitation programs--Section 8 or the rental rehabilitation grant program--to public housing modernization will contribute substantially to accelerated deterioration of the standing low-rent housing stock and further decline of lower income neighborhoods that might have benefited from housing improvements.

Because low-income households in New York City face an extremely tight rental market, development subsidies for new construction and substantial rehabilitation are crucial in alleviating the problems of short supply. These problems are, in large part, responsible for recent increases in homelessness among families and, more broadly, for the rising degree of housing instability among low-income households. CSS has and will continue to document the plight of these individuals and families.

The Administration is apparently indifferent to the housing stresses being experienced by low-income households to the community development needs of distressed neighborhoods and cities. We urge the Congress, at a minimum, to maintain past levels of federal commitment to assist housing and community development programs and, as importantly, to sustain the idea that the federal government has a vital role to play in the development of our communities.

HEALTH AND NUTRITION

Once again the attempt is being made to place a permanent cap on federal Medicaid spending. This would transform the open-ended entitlement program into a quasi-block grant, instead of reimbursing states for expenses through a federal-state matching formula. In some states the federal share could come to less than 50 percent. A $300 million one-time fund is to be set aside to help states which tried but were not able to control costs; it is not clear how states would qualify for that assistance. New York State expects to lose $371 million, and New York City $155.7 million, in FY 1986 under the cap proposal. In addition, the state and city would lose $20 million and $30 million, respectively, if a block grant is created for the costs of administering the Medicaid, Food Stamps and AFDC programs. Both the city and state would have to use their own funds to offset these losses.

Over the past four years, the federal government has weakened regulatory restrictions over eligibility and benefits, allowing states to make drastic program changes to cope with shrinking federal dollars and growing expenses. States have, indeed, modified their programs in an effort to control costs. The further spending cuts for FY 1986 in federal support both for Medicaid and Medicare,coupled with basic changes in reimbursement mechanisms, signal the end of federal policy to ensure access to health care as an entitlement for low-income Americans, the aged, the disabled and racial minorities. The gap in access to health care between the poor and more affluent persons that existed in this country prior to the enactment of Medicare and Medicaid is bound to reemerge and quality of care is bound to diminish.

Medicare is targeted for the deepest cuts. Outlays are to be held at $67.2 billion for FY 1986 through sweeping legislative and regulatory changes. While hospitals and doctors would have their payments frozen at earlier levels or reduced, the elderly will be faced with higher premiums, deductibles and copayments. For the first time, the elderly will have to pay part of the cost of home health care visits which exceed 20 a year, a copayment of $4.80 a visit in 1986. Hospitals are to absorb 62 percent of the Medicare reductions, physicians, 7 percent and the elderly, 31 percent.

New York State estimates that the combined cost of the proposed cost sharing requirements will have a $170 million impact on the elderly. New York City estimates that premium and deductible increases alone will cost the city's 958,000 elderly and disabled $21.8 million over the next five years. Increased cost-sharing will discourage the poor elderly from seeking needed health care, who, unlike the more affluent, cannot afford to purchase private insurance to pay for additional benefits or to fill the gap between actual charges and what Medicare pays for. Their only resource is to avoid using services or to turn to Medicaid if they are eligible. Monthly premiums for Part B, Supplementary Medical Insurance, will rise from $15.50 to $16.80, an increase, incidentally, which cannot be enacted unless there is a cost-of-living increase for Social Security recipients. A 1984 law requires that no retiree receive a Social Security check lower than the previous year. New York State and local governments will have added costs of $6 million since they pay the Part B premium for the Medicaid/Medicare eligible population.

Medicare beneficiaries are to be given the option of electing a voucher to buy private insurance on the theory that an astute consumer can buy as much protection, if not more, for less. More affluent and healthy seniors will surely find it easier to enroll in low-cost, high benefit private insurance plans than persons poor in health and wealth. High marketing and administrative costs affect profit margins and make it questionable whether private insurers can offer benefits equal to Medicare coverage at or under the amount of the voucher (pegged at 95 percent of the average adjusted area Medicare per capita cost). Medicare's plan to enroll beneficiaries in prepaid capitation plans, on the other hand, offers the potential of cost control and more comprehensive coverage with lower out-of-pocket costs.

The probable depletion of the Hospital Insurance Trust Fund, from which Medicare payments are taken, has made cost containment a necessity. The diagnostic related group (DRG) prospective payment system, created through the Social Security Amendments of 1983 as a cost containment technique, has successfully slowed the growth of increase in hospital costs. While the DRG system has promoted hospital efficiency,there is some evidence that Medicare patients may be being discharged prematurely since hospitals are encouraged to treat and release patients quickly to stay within the DRG rates. There are also other residual effects. Hospitals are reducing their staffs, a move that often impacts on the working poor and minorities for whom the health field is a leading source of employment. The President now proposes to freeze those hospital payments, as well as payments to skilled nursing facilities, home health agencies, physicians and other providers for FY 1986. New York State does not expect its hospitals to be affected by the payment freeze since they are currently operating under a waiver, which may or may not be extended. In fact, the waiver might be in jeopardy should the national rate of growth in hospital costs be below what New York can achieve. If the waiver is lost, New York City's municipal hospital system would would lose $11 million for FY 1986. While providers would be penalized by payment reductions, their ability and willingness to absorb unrecouped costs is limited. Uncompensated costs which are shifted to private paying patients or to the taxpayer via government levies cannot be considered cost containment.

Despite growing evidence that persons living below or near the poverty level do not get an adequate diet for at least part of every month, no improvement will be made in food stamp spending. Outlays for FY 1986 are to be held virtually at the 1985 level, providing Congress will agree to mandatory workfare requirements. Expenditures for FY 1986 would rise only enough to cover the cost-of-living increase required by law and the higher benefits from calculating the base on 100 percent of the Thrifty Food Plan. Making work experience mandatory is expected to save the federal government $56.3 million through eventual gainful employment for some and discouragement of others from applying for food stamps. Administering a mandatory workfare program costs money and it is not clear where the funds to do that will come from. New York State estimates that the cap on administrative funds funds will cost $12.7 million federal dollars.

Federal subsidies for school meals for middle-income children would be be eliminated. Schools contend that those payments support the cost of the whole lunch program. Poor children will be the losers if free and reduced-price meals are eliminated from schools which discontinue their entire lunch programs. About 38 percent of New York State's food authorities would be likely to do so, affecting over 240,000 students.

HUMAN SERVICES

Having cut federal spending for social services by approximately 25 percent since 1981, the President would cleave another $1 billion in 1986 by terminating all spending for the Work Incentive Programs (WIN), the Community Services Block Grant, and the Legal Services Corporation; by capping foster care expenditures and by freezing Title XX and child welfare services. In addition, the President would reduce by nearly 30 percent Refugee and Entrant Assistance, and discontinue the $25 million training program to prevent child abuse in child care settings.

If enacted, these proposals would reduce further the federal government's commitment to assist indigent families and individuals to gain economic self-sufficiency and enjoy the full exercise of their personal rights. Legal representation, child protection, child care, vocational counseling, English language instruction as well as other services would be withdrawn from thousands of low-income New Yorkers. In the past, Congress has rejected these proposals and the specious arguments made in their support and it should do so once again. There are no alternate sources of funds for these services except state and local tax levies. Previous federal cutbacks have meant either reduced sevices or increased state and local expenditures. Even without the new reductions proposed by the President, the federal share of the cost of services to low-income families will continue to shrink as state and local government supply the money needed to maintain current services or meet growing needs. Annual state and city contributions to family and children's services in New York City increased by more than $110 million between 1981 and 1985. These funds were needed just to maintain the city's day care and child protective service programs and to meet new federal requirements for foster care and family services.

The proposed ceiling on federal spending for foster care merits scrutiny. Although it is presented as a temporary (one year) measure made in service of deficit reduction, this qualifier must be viewed warily. The Administration has consistently sought to undermine the Adoption Assistance and Child Welfare Act (Public Law 96-272). In proposing this cap, it chooses once more to ignore the 1980 law, which provides a method for placing a ceiling on federal spending for foster care that would allow the states to benefit from the reductions they achieve through better management. The ceiling that the President would impose provides no such incentives to improve services. Moreover,it is unlikely to be short lived and would shift costs to states and localities. Congress should consider cost control measures in the context which it devised in 1980 and which it must reauthorize this session.

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars) Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986	PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
EMPLOYMENT AND ECONOMIC DEVELOPMENT					
Job Training Partnership Act (For All Titles)	$ 3,644	$ 2,806	- $ 838	•Funding for Title II-B and Title III would be cut •Termination of Job Corps	•Fewer persons served
Job Corps	$ 617	$ 0	- $ 617	•Termination of program	•The two job centers in New York City would be closed
Title II-B/Summer Youth Employment Program	$ 725	$ 665	- $ 60	•Recission of $100 million in 1985 •Reduced funding for 1986	•Reduce funding for Summer Youth Employment Program by $7.6 million •10,000 fewer summer job slots for youth in 1985
Title III/Dislocated Workers	$ 223	$ 100	- $123	•Rescind $123 million from 1985 budget •Reduce budget for 1986	•Fewer persons served, less services
WIN	$ 267	$ 0	- $267	•Terminate the program; individuals to be served under Title II of JTPA	•Loss of $5 million to address the employment and training needs of 30,000 AFDC recipients
Employment Service	$ 777	$ 755	- $ 22	•Reduce funding by $22 million	•Fewer job placements and job listings

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Employment Service (continued)				•Rescind $37 million for 1985 budget •Shift full responsibility and financing to the states	
Economic Development Administration	$ 200	$ 0	- $200	•Abolish agency	•Loss of economic development assistance funds for economically distressed areas
Small Business Administration	$ 3,354	$ 0	- $3,354	•Abolish agency	•Loss of loans to small businesses
Urban Development Action Grants	$ 440	$ 0	- $440	•Abolish program	•Loss of $24.5 million in economic development grants to leverage private investments and create and maintain jobs
INCOME SECURITY					
Old Age, Survivors & Disability Insurance	$191,968	$203,112	+$11,144	•None. (Assumes a 4.1 percent cost-of-living increase payable in January 1986.)	•None

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Supplemental Security Income	$ 9,511	$ 9,890	+ $379	•None. (Assumes a 4.1 percent cost-of-living increase payable in January 1986.)	•None
Aid to Families With Dependent Children	$ 8,363	$ 8,153	- $210	•Cap administrative expenses and convert to a fixed grant for each state. •End parent's benefit when youngest child reaches age 16 •Require single minor parent to live with her parent(s) in order to be eligibile, except under certain conditions. •Mandate work program participation (also involves elimination of WIN as a discrete program.)	•Cost of $5 million to city for first nine months (more in subsequent years) for program administration. •Cost to city of about $3 million annually, as costs are shifted to state-local Home Relief Program. •Loss of $2-3 million in federal funds, with costs shifted to Home Relief or benefits denied to 1,000 - 1,200 households. •Administrative difficulties and potential additional reponsibilities for entire adult caseload, plus $14 million cost to city in first nine months and rapidly escalating costs in subsequent years.
Child Support Enforcement	$ 606	$ 673	+ $ 67	•None.	•None.

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Low-Income Home Energy Assistance	$ 2,100	$ 1,291	- $809	•Use of oil overcharge collections for program (estimated at $809 million in FY 86) to take the place of general tax revenues in that amount.	•None if oil overcharge collections meet expectations
HOUSING AND URBAN DEVELOPMENT *					
Section 202: Direct Loans for Development of Housing for the Elderly & Handicapped	$ 600	$ 0	- $600	•Two-year moratorium on new commitments	•Loss of 700 units, $40 million in loan funds per year •Current commitments will reach a standstill by 1986
Section 8 New Construction and Substantial Rehabilitation (in conjunction with Section 202 loans)**	$ 1,709	$ 0	-$1,709	•Two-year moratorium on new commitments	•Loss of 700 units, $40 million in load funds per year •Current commitments will reach a standstill by 1986
Section 17 Housing Development Grants (HODAG)	$ 115	$ 0	- $115	•Elimination of the program.	•Terminates the only federally-subsidized, private rental development program that might serve low-income families

*Dollars shown for Housing and Urban Development programs are budget authority, not outlays.

**Dollars shown for Section 8 and Housing Vouchers are incremental budget authority

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Section 17: (continued)					•Current commitments will reach a standstill by 1986
Public Housing: New Construction of Conventional Units	$ 14,649	$ 1,847	-$12,802	•Program elimination (except for 2-year moratorium on Indian housing component.) •Adminstration plans for future housing assistance rely primarily on housing vouchers	•No further development of conventional public housing for low-income families
Section 8 Moderate Rehabilitation	$ 419	$ 0	- $419	•Two-year moratorium on new commitments	•Accelerated deterioration of rental housing occupied by lower income households, particularly in transitional neighborhoods that might be upgraded
Section 17: Rental Rehabilitation Grants	$ 150	$ 0	- $150	•Two-year moratorium on new commitments	•Accelerated deterioration of rental housing occupied by lower income households, particularly in transitional neighborhoods that might be upgraded
Public Housing Modernization	$ 1,725	$ 175	- $1,550	•New funds are restricted to emergency repairs •Administration proposes resumption of close to the FY 1985 funding level in FY 1987	•Annual loss of $63 million (79 percent reduction) in modernization funds for NYC Housing Authority •Accelerated deterioration of public housing stock

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Public Housing Operating Subsidies	$ 1,139	$ 1,011	- $128	•Excess FY 85 funds that go unused will be rescinded	•Annual loss of $30 million for maintenance and operating costs •Further deterioration of public housing stock through deferred maintenance
Section 8 Existing Rent Certificate Program**	$ 2,621	$ 0	- $2,621	•Two-year moratorium on new commitments •Freeze imposed on "fair market rent" (FMR) levels •Proposed conversion from 15-year certificates to 5-year vouchers	•Loss of $23 million in annual housing assistance funds (based on FY 85 appropriation) •Higher rent burdens for assisted households, due to FMR freeze (NYC rents have increased by an average 25 percent in the last three years) •Less rent relief available to unassisted households experiencing increased rent burdens (Public housing waiting list contains 170,000 households)
Housing Vouchers**	$ 655	$ 0	- $655	•Two-year moratorium on new commitments	•No further vouchers beyond current commitments to rental rehabilitation grant program and a small "experimental" voucher program.

**Dollars shown for Section 8 and Housing Vouchers are incremental budget authority

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Low-Income Home Energy Assistance Program (LIHEAP)	$ 2,140	$ 2,100	- $40	•Finance program, in part, from settlements of oil overcharge litigation	•No impact beyond uncertainty of financing mechanism
Low-Income Weatherization	$ 191	$ 153	- $38	•Finance program, in part, from settlements of oil overcharge litigation •Phase out in five years with 20 percent reduction each year	•Phase out of $12 million of program activity (in 1985) conducted by 23 community groups
Section 235 Lower Income Home Ownership	$ 150	$ 0	-$150	•Program elimination	•Elimination of subsidies for home purchase by lower income households •In NYC the current FY 85 level of activity---$15 million for 1,500 homes---would come to an end
UDAG	$ 440	$ 0	-$440	•Program elimination	•Fifty million in UDAG commitments to affordable home ownership program would be lost •Intensified completion between home ownership and low-income rental programs for available state and local funds

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Community Development Block Grant Program (CDBG): Entitlement Jurisdictions	$ 2,388	$ 1,839	-$549	•70/30 percent split of CDBG funds between entitlement jurisdictions and small cities is changed to 60/40 percent •Ten percent cut in overall CDBG funds	•NYC allocation of CDBG funds will drop from $213 to $164 million, a loss of 49 million (a 23 percent reduction) •Reduction in federal funds used for repair of rem housing, SRO preservation, commercial, revitalization, other development activities in lower income neighborhoods
FEMA (Federal Emergency Management Administration) Emergency Food and Shelter Program	$ 70	$ 0	- $70		•2.5 million in current federal funds to support emergency shelter activities in NYC will no longer be available.
HEALTH AND NUTRITION					
Medicaid	$ 22,985	$ 23,690	+$705	•Cap on federal spending would replace current open-ended entitlement, which uses federal/state matching formulas to reimburse states for medical assistance. FY 1986 federal spending would be capped at 118.9 percent of FY 1984 level. After 1986, increases in federal spending would be limited to the increase in the medical care component of the Consumer Price Index. Detailed cost allocation plans and federal expenditure reviews would be eliminated.	•Loss of $155.7 million in the city's 1986 fiscal year •Loss of federal funds will jeopardize the city's ability to provide health care services to the poor

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Medicaid (continued)				°Establish a one-time $300 million hardship fund for states that, despite good faith efforts, are unable to control costs. °Replace current open-ended federal-state matching system with a fixed grant for state administrative and training expenses. FY 1986 spending would be frozen at about the same level as FY 1985, and apportioned among the states according to their FY 1984 spending patterns. After FY 1986, the grant would be indexed to the implicit price deflator for the Gross National Product (GNP Deflator) °Allow states to transfer up to 10 percent of administrative and training funds of the Medicaid, Food Stamps and Aid to Families with Dependent Children (AFDC) programs to other state administered public assistance programs °Institute substantial new program reforms to increase significantly state's ability to control costs, included would be increased flexibility to target services and to offer alternatives to more costly services and new regulations to increase third party health insurance collections from	

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
				absent parents in child support enforcement case which would produce Medicaid savings •Institute a job search and work experience requirement in the AFDC program, also expected to produce significant Medicaid savings	
Medicare, Part A-Hospital Insurance & Part B-Supplementary Medical Insurance	$ 66,256	$ 67,158	+$902	•Delay initial eligibility until first day of the month following beneficiarys' 65th birthday •Increase premium for Part B (Supplementary Medical Insurance), which now finances 25 percent of program costs, by 2 percent every year for five years until the premiums cover 35 percent of program costs in 1990 •Establish a copayment of 1 percent of the inpatient hospital deductible ($4.80 in 1986) for each home health visit in excess of 20 visits during a calendar year	•Loss of $1.2 million; city Medicaid costs for poor elderly will increase as will the cost for municipal hospitals •Elderly without any insurance protection could face financial catastrophe •City would lose $600,000 in CFY 1986 because they pay the premiums for Medicaid/Medicare eligibiles •Poor elderly not eligible for Medicaid may not be able to afford to purchase Part B •Poor elderly will be discouraged from using extended home care

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Medicare (continued)				•Beginning in 1987, increase annually the Part B deductible based on the Medicare Economic Index. The current deductible of $75 has remained constant since 1982	•None in 1986 •Beginning in 1987, out-of-pocket costs will increase for the elderly hindering the poor elderly's ability to obtain health care
				•Require employers to offer the same health insurance to their employees over age 69, or to an employee with a spouse aged 65 or more, as offered to younger workers. Medicare would be the secondary payer	
				•Establish a voluntary voucher program with Medicare paying a private health care plan a premium equal to 95 percent of the average adjusted area Medicare per capita costs for a benefit package at least equivalent to Medicare	
				•Extend current freeze on physician fees, due to expire October 1985, to October 1986	•Physicians will be discouraged from treating the elderly
				•Freeze hospital reimbursement rates at the 1985 level for 1986	•If New York State's waiver expires at the end of 1985, city municipal hospitals would lose $5.3 million in the CFY 1986
				•Reduce indirect medical education payments to teaching hospitals by eliminating the doubling of the adjustment factor	•If NYS waiver expires, municipal teaching hospitals would lose $18.3 million in CFY 1986

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Medicare (continued)				•Freeze payments for direct costs of medical education to teaching hospitals at the FY 1984 level	•If NYS waiver expires, municipal teaching hospitals would lose $3.1 million in CFY 1986
				•Maintain 1985 limits on home health agency reimbursement in 1986 and revise calculation of home health reimbursement limits, now set at the 75th precentile of average cost per visit industry-wide, to reflect type of service rendered	
				•Freeze reimbursement limits for skilled nursing facilities (SNF's), set at 112 percent of the mean operating costs of all facilities (plus 50 percent for free-standing hospital-based SNF's), for one year, effective July 1, 1985	
				•Freeze payments for clinical laboratory tests, durable medical equipment and other supplies for one year, effective July 1, 1985	
				•Simplify processing of Part A (Hospital Insurance) bills and eliminate the separate fiscal intermediary for the Railroad Retirement Board	
Health Block Grants					
MCH	$ 478	$ 478	0	•Expand primary care block grant to include Black Lung Clinics, family planning and migrant health services	•The funding levels do not reflect any inflationary growth
Primary Care	$ 550*	$ 550*	0		
Preventive	$ 89	$ 89	0		
Mental Health	$ 490	$ 490	0		

*This figure includes the total funding for all programs proposed to be incorporated into the primary care block grant

IMPACT OF PRESIDENT REAGAN'S PROPOSED FY 1986 BUDGET ON NEW YORK CITY

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Food Stamps	$ 11,765	$ 11,859	+ $94	•Replace current system of open-ended entitlement with federal/state matching formulas to reimburse for administrative cost with a capped federal grant. FY 1986 grant would be frozen at the FY 1984 level of spending. In FY 1987 and future years, increases would be set at the rate of growth in the GNP inflator.	•Loss of $81 million to New York City in CFY 1986
				•Allow states to transfer up to 10 percent of administrative and training funds of Medicaid, Food Stamps and Aid to Families with Dependent Children programs to other state adminstered public programs	
				•Mandate a work registration or work requirement for employment for employable recipients in exchange for food stamp benefits	•Work experience for non public assistance food stamp recipients would not be cost-effective, given the low level of benefits for which most are eligible. The number of hours required for them to work off their grants would be insufficient to compensate for the added administrative expenses incurred
Child Nutrition	$ 3,836	$ 3,449	- $387	•Eliminate federal subsidy for children whose family income exceeds 185 percent of the poverty level	•Loss of $1.7 million to New York City in CFY 1986
				•Freeze reimbursement rates for meals served in FY 1986 at FY 1985 levels	

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Supplemental Food Program for Women Infants & Children (WIC)	$ 1,519	$ 1,511	- $ 8	•None	•Current caseload cannot be maintained
HUMAN SERVICES					
Social Services Block Grant*	$ 2,725	$ 2,700	- $25	•The budget would fund the program at the authorization level but would drop the $25 million appropriated in 1985 for training day care staff in order to prevent child abuse in child care settings.	•The loss of funds would disrupt the training of day care staff which began this year, undermining its effectiveness. The city would lose about $800,000
Community Services Block Grant*	$ 372	$ 0	-$372	•The budget would eliminate this program which provides social services in poor communities through local organizations	•The city would lose $16.7 million annually, ending services to 200,000 New Yorkers and jeopardizing the jobs of over 2,000 low to moderate income workers in 320 community agencies
Family Social Services	$ 743	$ 748	+ $ 5	•The administation would impos a "one-year" ceiling on reimbursement for foster care set at the estimated 1985 program level - $485 million. Child Welfare funds would stay at $200 million and small increases in Adoption Assistance will result from more adoptions of eligible children	•Under a guise of curtailing the use of foster care, the Administration would shift an estimated $6.0 million in costs from federal to state and city budgets, while the federal share of the costs of

*Figures for the Social Services Block Grant, Community Services Block Grant and Legal Services are Budget Authority, not Budget Outlays, in order to convey more precisely the Administration's intent.

PROGRAM	BUDGET OUTLAYS (in millions of dollars)			PROPOSED PROGRAM CHANGES	IMPACT ON NEW YORK CITY
	Estimated for FY 1985	Reagan's Proposal for FY 1986	Difference: 1985-1986		
Family Social Services (cont'd)					the expanded preventive services required by federal law and regulations will continue to be marginal.
Legal Services*	$ 305	$ 0	-$305	•The President would eliminate this program to provide legal services to the poor in civil disputes.	•In NYC, Community Action for Legal Services would lose $11 million resulting in loss of representation for over 40,000 indigent clients

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*Figures for the Social Services Block Grant, Community Services Block Grant and Legal Services are Budget Authority, not Budget Outlays, in order to convey more precisely the Administration's intent.

Government Finance Officers Association
(formerly Municipal Finance Officers Association)

regarding

The Impact of the Administration's Fiscal Year 1986 Budget Proposals on State and Local Governments

submitted to

Senate Committee on the Budget

February 21, 1985

The Government Finance Officers Association (GFOA) recognizes the crisis this nation faces over the foreseeable future as we attempt to reduce the magnitude of the federal deficit. We fully appreciate the difficult task facing the Administration and the Congress in this effort. As state and local fiscal officials, we are acutely aware of the impact of the federal deficit upon the long-term health of our nation and its cities, states, and other local governments. The solution cannot be to simply shed the deficit onto state and local governments or to abandon the well-established concept of a federal-state-local partnership.

Each major component of the revenue and expenditure pattern of the federal government must bear its equitable share of the burden of reducing the onerous deficit which, without a positive commitment from all participants to the federal budget process, has little chance of decreasing.

The GFOA proposes that reductions to the federal budget deficit be done fairly and in such a way that affects each of the four major contributors to the national expenditure/resource spectrum. These are:

1) military spending,
2) domestic programs,
3) entitlement programs, and
4) federal tax policies.

The GFOA recognizes that a national consensus may exist that the maintenance of or increase in one or more of these categories is essential to the public safety or welfare. Such problems, caused by constrained resources, occur regularly at the state and local level. The GFOA recommends that, if it is deemed necessary to expend more than the reduced level to sustain a vital program, the expansion should be financed by revenue enhancements. This will preserve the integrity of any deficit reduction program. In addition, fairness calls for beneficiaries of previous tax code changes to contribute to reducing the deficit now. The current federal deficit is caused as much by the tax policy changes enacted in 1981 as by spending increases.

The Government Finance Officers Association has reviewed the President's budget proposals: (1) to terminate the General Revenue Sharing program one year earlier than previously planned, and (2) to reduce, terminate or phase out other federal grant programs. It has concerns that the proposed actions will seriously undermine the fragile financial condition of many governments that have only recently been operating "in the black" after several years of deficit operation.

As recently as 1983, the Joint Economic Committee reported between 40 and 60 percent of 299 cities surveyed either had or expected operating deficits in 1982. For 1983, 64 percent or 192 cities in the sample anticipated an operating deficit. This report is prepared annually in conjunction with the Government Finance Officers Association's Government Finance Research Center and demonstrates the significant effect of the most recent national economic downturn on city economies. Even as the nation recovers from the severe effects of the past recession, cities continue to suffer because of recent federal budget cuts.

In his 1984 Annual Report, the Comptroller General of the United States, Charles A. Bowsher, noted that "...federal aid to state and local governments has significantly changed." Federal aid to state and local governments is lower today than it was in 1978 taking inflation into account. Therefore state and local governments have already experienced a significant de facto reduction in aid without a reduction in federally mandated expenditures and have labored during the last six years to end up with their revenues and spending staying pretty much in the same place. Further reductions in aid will do more damage to state and local government self-sufficiency than they will to a reduction of the federal budget deficit.

The Government Finance Officers Association is aware of those arguments for reducing or eliminating aid to state and local governments that are based on the existence of a large federal deficit and alleged "surpluses" at the state and local levels. The current modest balances at the state and local government level exist because these governments raised taxes in the middle of the recent recession in order to continue to supply basic services at a time when the federal government cut both taxes and aid to state and local governments. Furthermore, states and localities are often restricted by law or Constitutional provisions from having unbalanced budgets. Prudent financial management dictates that state and local governments have positive fund balances or else they must do some or all of the following when deficits arise:

- reduce services,
- cut personnel,
- defer expenditures,
- raise taxes, fees or charges, and
- borrow in anticipation of future revenues, if permitted.

The notion that state and local governments have a rosey financial outlook misrepresents recent progress and totally ignores future financing needs. The 1984 Joint Economic Committee report, Hard Choices warns that the infrastructure needs of the nation through the year 2000 are enormous and require a commitment from states and localities to develop long-term financing strategies. According to the U.S. Department of Commerce the real per capita value of state and local government-owned fixed capital stock has fallen since 1979 indicating that our investments are failing to keep pace with the demands of an increasing population and the continue wearing down of cities' and states' equipment and structure. A new Environmental Protection Agency study reports that municipal sewer costs to the year 2000 will exceed $108 billion.

In February 1985, Standard and Poor's Credit rating service reported that the gap between municipal credit rating downgrades and upgrades narrowed significantly in 1984 over 1983. In 1984 there were 96 downgrades as compared with 78 upgrades; in 1983 there were 158 downs, and 64 ups. According to Standard and Poor's, previous federal aid cuts did not prove as negative as it was originally thought they might and, tighter management controls stabilized most situations. Whether governments will be able to sustain the additional drastic aid cuts proposed in the FY 1986 budget without massive erosion in credit quality is questionable. The ability of states and localities to reduce spending for ongoing operations when intergovernmental aid falls is key among credit quality considerations.

The Government Finance Officers Association feels that proposals to eliminate or reduce valuable federal grant programs ignore the important reasons why the programs exist and the public purposes to which government apply these funds, such as job creation, economic development, public safety and health and welfare needs. In the last decade, the General Revenue Sharing Program has become a basic expression of the federal partnership designed to provide a degree of equity in the quality of public services from one community to the next. In the mature cities, General Revenue Sharing has been used to sustain public safety and other essential services. In growing cities, it has been used to build the infrastructure necessary to support the expanding populations and new industries.

The proposed elimination of General Revenue Sharing abandons the federal partnership and simply passes a portion of the federal deficit on to local governments. Since Revenue Sharing is frequently used to finance essential services, its elimination must be offset by increasing property taxes at the local level. This Association takes the position that local government property taxes are a poor choice of revenue to finance the federal deficit.

The proposed reduction of Revenue Sharing and other grant programs can only erode the ability of state and local governments to accommodate and support an expanding national economy. No economic expansion is likely to last for any length of time unless the basic infrastructure is in place to support it. Therefore, the reduction and elimination of federal grant programs will ultimately cost the nation more than the small savings the cuts will represent.

NATIONAL
ASSOCIATION
OF REGIONAL
COUNCILS

1700 K St., N.W., Washington, D.C. 20006 • Area Code (202) 457-0710

STATEMENT OF
THE NATIONAL ASSOCIATION OF REGIONAL COUNCILS
BEFORE THE
SENATE BUDGET COMMITTEE
ON
THE ADMINISTRATION'S FY86 BUDGET PROPOSALS

February 21, 1985
Washington, D. C.

The National Association of Regional Councils (NARC) appreciates the opportunity to provide testimony to the Committee on the Administration's FY86 budget proposals.

NARC represents approximately 300 of the 534 existing substate regional councils currently in operation in the United States. Regional councils are public agencies encompassing a regional community--founded , sustained and tied directly to local governments through local and/or State government actions. Through communication, planning, policy-making, coordination and technical assistance, councils serve the local governments and citizens in a region by dealing with issues and needs which cross city, county and, in some instances, state boundaries. They are found in both urban and rural areas of the country.

The policy-making boards of regional councils are composed mostly of elected officials representing local governments within a substate region. In some states, representatives of the state legislature and citizens sit on their local regional council boards.

Regional councils provide assistance to their local governments in areas ranging from transportation to economic development to job training to meals for the elderly. Geographically, councils often span several counties and can involve hundreds of local governmental jurisdictions.

In early February of this year, NARC convened its annual Federal Briefing. Approximately 800 officials from around the nation gathered in Washington to focus on the FY86 budget and its impact on states, local governments, and regional councils. That meeting was dominated by concern about severe budget cuts in domestic programs, particularly the elimination of General Revenue Sharing, curtailment of mass transit and water quality programs , and dismantlement of the Economic Development Administration and Small Business Administration.

These programs are essential to the economic vitality of state and local governments. In many cases, these federal funds assist state and local governments in complying with federal mandates (e.g. clean air, clean water, etc.). In other cases, they promote business development and jobs.

Historically, federal domestic programs for state and local governments have been instituted to achieve some perceived national purpose and in recognition of the disparate nature of the state and local government members of our federal system. They were developed to accomplish clear policy objectives such as a cleaner environment or a healthier national economy.

The budget cuts proposed by the Administration this year are offered in the absence of such policy considerations. At best, only a superficial inspection of the impact of the cuts has been made. It is clear that the proposals to eliminate or severely curtail programs are merely financial decisions designed to move toward a balanced budget. In our view, this "number-driven" approach to public policy development is inappropriate.

The elimination or continuation of state and local assistance programs should be considered in terms of their value to the nation. We need to ask if the programs are still relevant. We need to examine them to see if they are carrying out their purpose in an efficient, effective manner. And most importantly, we should ask whether they adequately assist in fulfilling national goals. In austere times, we must make policy-based assessments concerning which programs should remain and which should go, which are necessary and which have outlived their usefulness.

But these decisions must be made through a process which allows for reasoned examination of these programs. It is not acceptable-- nor is it good public policy-- to make decisions on the basis of numbers alone. Budget and deficit reductions--no matter how urgently needed--should not be the preeminent basis for such choices.

NARC is not insensitive to the danger of large federal deficits. We recognize that spending must be brought under control and we stand ready to assist in this effort.

At our February meeting, our members confronted this dilemma. After much debate our Board adopted a resolution which addresses deficit reduction (a copy is attached to this statement).

In brief, the resolution:

- urges the Administration and Congress to agree on a bipartisan program-by-program freeze in Federal spending at the budget levels established for FY85;

- supports the Administration and Congress in developing a bipartisan and comprehensive tax reform package which would produce new revenue to reduce the budget deficit and avoid further cuts in domestic spending; and

- proposes that--in conjunction with the freeze--the Administration and Congress undertake a bipartisan POLICY-BASED review of existing major domestic programs to assess their effectiveness in meeting fundamental national needs and purposes.

It does not serve the nation well in the long term to hastily eliminate programs for solely budgetary reasons. These programs were created to implement policies that were undoubtedly the product of lengthy Congressional deliberations. They were not developed as aimless vehicles for transferring revenues from one level of government to another and they should not be aimlessly cut to trim the federal government's "bottom line."

We urge Congress to enact a one year program-by-program freeze. Such a freeze would provide Congress and the Administration with the time to examine state and local government programs (as well as others) on their merits and to seriously explore the real-life consequences of program cutbacks or eliminations.

NARC stands ready to assist you in this effort.

Thank you.

ATTACHMENT

NATIONAL ASSOCIATION OF REGIONAL COUNCILS

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RICHARD C HARTMAN, Executive Director

February 6, 1985

RESOLUTION ON FEDERAL DEFICIT REDUCTION

WHEREAS, the current primary national economic goal is to sustain economic growth while fostering low inflation with continued reduction in unemployment; and

WHEREAS, these goals are threatened by the increasing federal budget deficits; and

WHEREAS, projected deficit spending by the Federal Government is reflected in high real interest rates; and

WHEREAS, this causes unwarranted high value accorded to the dollar in international monetary markets; these conditions prompting negative foreign trade balances for the United States with a concomitant mounting balance of payment deficits; and

NARC Resolution on Federal
Deficit Reduction

WHEREAS, it is recognized that local governments, acting through their elected officials, must assume a leadership role in forging a national consensus to assist the National Administration and Congress to take prompt and effective action to deal with these problems, and their solution must be made the paramount national domestic priority; and

WHEREAS, consistent with a national defense interests, any program developed to manage and reduce the deficit and related problems must be scrupulously fair and equitable if it is to gain public acceptance.

NOW, THEREFORE BE IT RESOLVED, by the Board of Directors of the National Association of Regional Councils as follows:

1. Urges the Administration and Congress to agree on a bipartisan program-by-program freeze in Federal spending at the budget levels established for FY85.

2. Supports the Administration and Congress in developing and enacting a bipartisan and comprehensive tax reform package which removes, revises or freezes the growth of tax expenditures and which would produce new revenue to reduce the budget deficit and avoid further cuts in domestic spending. Such reform package should continue to reflect the long established principle of our federal system that state and local taxes shall be deductible in computing federal income taxes.

3. Suggests in conjunction with a program-by-program freeze in the FY86 federal budget, the Administration and Congress should undertake a bipartisan policy-based review of existing major domestic programs to assess their effectiveness in meeting fundamental national needs and purposes.

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FEDERAL BUDGET COMMITTEE

STATES AND THE FY 1986 FEDERAL BUDGET
(Adopted March 9, 1985)

The National Conference of State Legislatures believes the federal budget deficit presents not only a threat to the nation's economy, but to the very fiber of government as well. The fiscal health of the states is very dependent upon the well-being of the national economy. For that reason, NCSL urges that significant steps be taken to reduce the federal budget deficit for FY 1986 and beyond.

In the early 1980's, large reductions were made in grants to state and local governments for the purpose of realigning the federal system and reducing overall federal expenditures. However, during that period, federal outlays as a percent of gross national product continued to grow. NCSL firmly resists the prospect of greatly reduced federal funding for programs of vital interest to the states, although the states are willing to do their share in absorbing reductions to reduce the overall federal budget deficit. Further, NCSL encourages efforts to improve the federal system and increase the flexibility for the states in the administration of federal grants.

The federal government provides funds for a wide variety of programs, initiated as a result of federal mandates, which are administered by the states. Any reductions in federal funding should not be made without corresponding reductions in federal mandates and restrictions.

The fiscal condition of most states is better now than in past years which experienced federal cutbacks and deep recession. While there has been an upturn in the economy and increases in tax revenues due to the strong national recovery, it is not even among all states. The federal government should be aware that reported state budget uncommitted balances are due to state tax increases and spending cuts. Since existing state uncommitted balances are concentrated in a small number of states, and are a small percentage of state expenditures, the assumption of federal programs by states cannot be accomplished equitably among the states. Compared to $200 billion deficits, the fiscal condition of the states may appear favorable. At the same time that states raised taxes and cut spending, the federal budget deficits were $128 billion in FY 1982, $208 billion in FY 1983, and $185 billion in FY 1984. The current misconception regarding the current and projected fiscal health of states should not be used as an excuse to cut federal funds. Any cuts in federal funds should be viewed as reductions in benefits to individuals and not to state and local governments. Such reductions could lead to increases in state and local taxes.

Defense spending should not be exempt from action taken to reduce the deficit. It is unlikely that any substantial deficit reduction will occur without a reduction in defense spending increases. Defense spending should not be below 1985 real-dollar levels. This defense spending recommendation is conditional upon the imposition of a reduction in other federal programs. In order to insure the country's ability to defend itself and preserve our national security, the defense reduction should be implemented by examining operational economies without regard to geographical economic interests.

Social Security, federal retirement, and all entitlement programs should be critically evaluated and should not be automatically exempt from budget reductions. Means-tested entitlement programs should be given a higher priority for funding.

Sufficient funding should be provided for programs that support those in our society who, through no fault of their own, are unable to provide for themselves.

All other discretionary programs not referred to above should be critically evaluated.

If the issue of revenues is addressed, it should be only as a means of reducing the deficit.